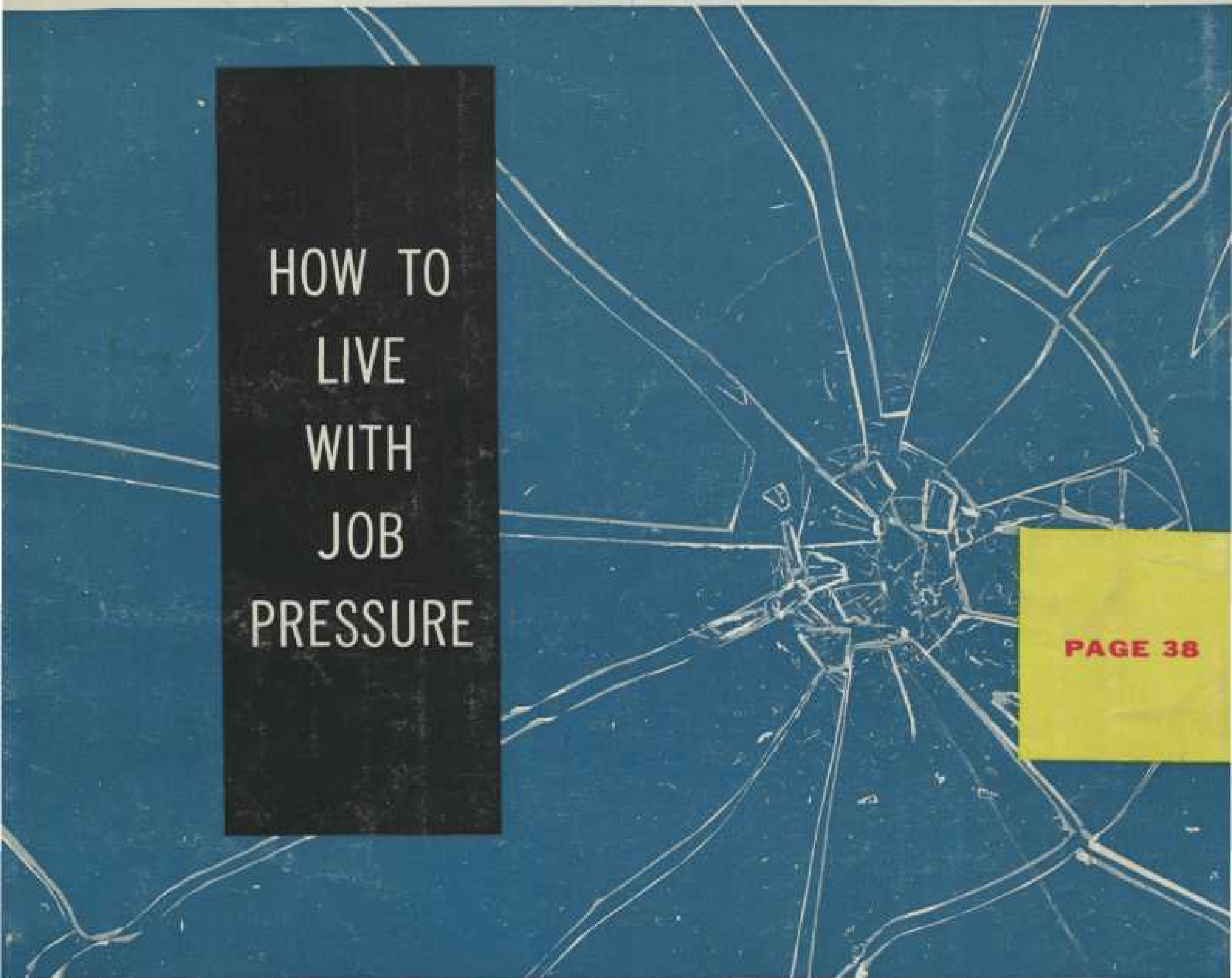
Nation's Business

A USEFUL LOOK AHEAD

SEPTEMBER 1956



Business in politics: 3 ways to get results PAGE 40

New pay ideas help hold executives PAGE 32

How professionals find managers PAGE 42

Worker pinch upsetting over-45 taboo PAGE 46

Make more money in your business

Ask the men WHO KNOW!

The George S. May Company . . . by every measurement the world's largest organization of its kind dealing exclusively with problems of business . . . has the know-how and the men who know how to solve problems in *your* business. During the past 31 years, George S. May service has been immediately productive for top management in companies suffering from rising costs, contracting markets, improper organization or outmoded methods. Without cost or obligation, one of our qualified representatives will call on you and show you how you can take advantage of the world's largest accumulation of business experience. But ACT NOW! Tomorrow may be too late.

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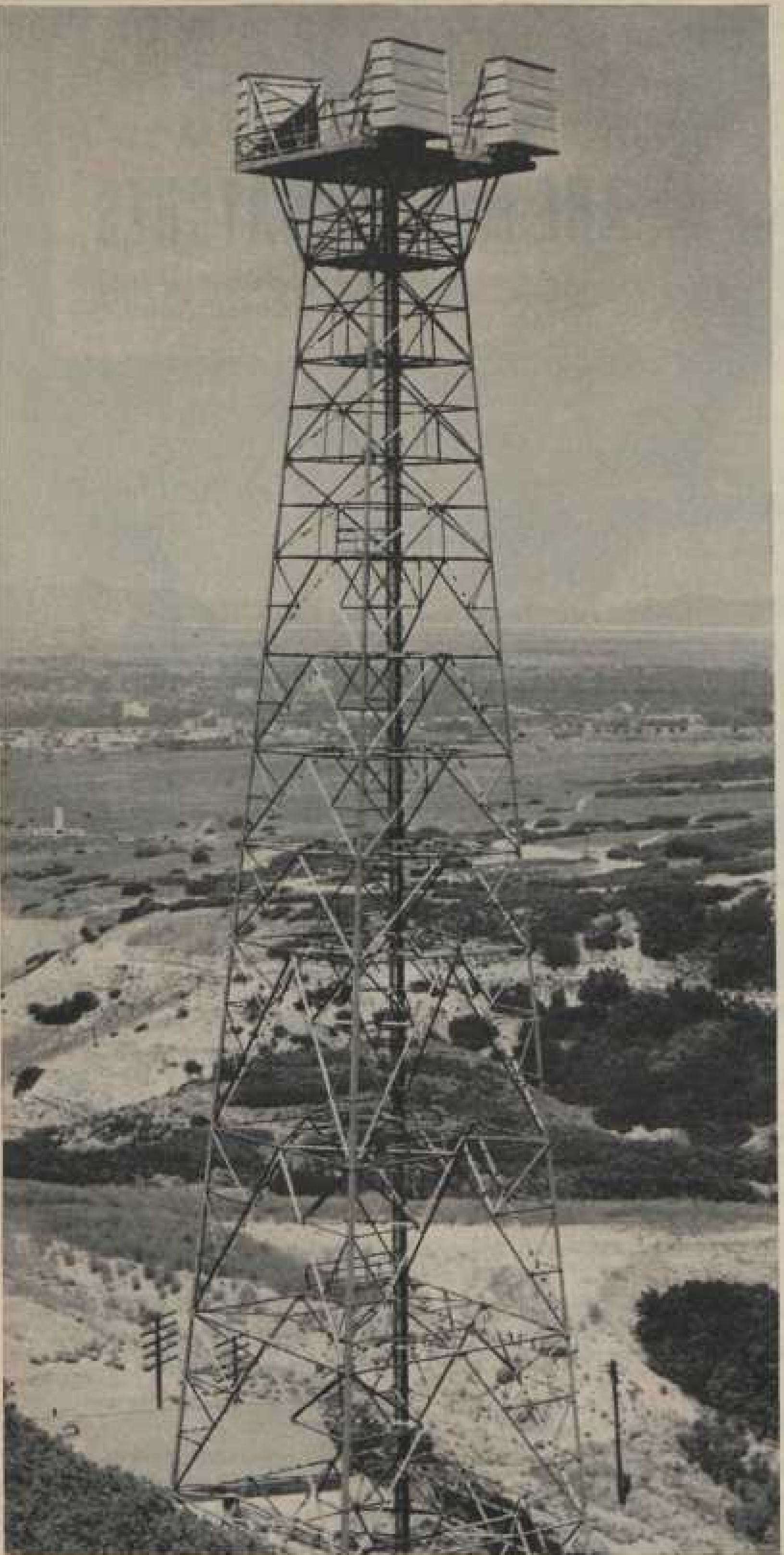

TV programs are flashed from tower to tower by microwaves

This tall tower at Salt Lake City, Utah, is part of the Bell System network that carries color TV, as well as black and white, from city to city. The nationwide Bell System TV network is manned by 1000 trained craftsmen with specially designed equipment. Day and night, they help to maintain the quality and efficiency of TV transmission over more than 73,000 channel miles of wire, cable and radio relay.

WE'RE SENDING COLOR THROUGH THE AIR

Bell System networks can now carry color TV to 190 broadcasting stations in 134 cities

Marching right along with progress in color TV—and helping to make it possible—is the Bell System.

As the needs of broadcasters and the public have increased, we have provided more and more of our facilities with the special, more intricate equipment needed to transmit color TV.

This country-wide network, linking 190 broadcasting stations in 134 cities, is already capable of bringing color TV within range of millions of people.

The Bell System provides service not only for the transmission of network programs but for the transmission of special programs over closed circuits. There's a growing use of this service by theaters, hospitals, hotels and many businesses.

It adds up to a lot of moving ahead and new areas of opportunity for the telephone company.

THIS BELL SYSTEM NETWORK is equipped to bring color TV, as well as black and white, within reach of millions of people.

BELL TELEPHONE SYSTEM

Nation's Business

SEPTEMBER 1956 VOL. 44 NO. 9

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EXTRA VALUE MAKES THE DIFFERENCE IN INSURANCE

Insurance tailored to a tunnel

ABOUT 20 MILLION AUTOMOBILES a year will whir past this point after the tunnel's skeleton takes on flesh. The same kind of unique insurance and service Indemnity provided this $100 million project is available for your needs, large or small.

The tunnel burrowed beneath the bed of the Hudson will soon ease the traffic roadblock between New York and New Jersey. The Third Lincoln Tube is The Port of New York Authority's miracle of engineering—and triumph of safety. Sandhogs, working in compressed air, slogged a path through a hazardous mile of silt—safer under the accident prevention program maintained by The Port Authority with the co-operation of contractors, unions and Indemnity Insurance Company of North America. Safety was made a 'living' program, preventive medicine applied, and a completely equipped medical clinic set up at the site.

The project also needed insurance. Indemnity used a special retrospective rating plan which proved a unique way to provide insurance at a saving in costs. Again Indemnity demonstrated its flexibility and progressive underwriting policy in meeting unusual challenges in the casualty insurance field. This is another example of how 'extra value' made insurance different—and vital. Ask the Indemnity agent or broker how 'extra value' can make the difference to you.

Insurance Company of North America
Indemnity Insurance Company of North America
Philadelphia Fire and Marine Insurance Company

NORTH AMERICA
COMPANIES
Philadelphia

Protect what you have®

management's WASHINGTON LETTER

▶HERE'S RUNDOWN ON ISSUES as they are shaping up in Washington campaign headquarters.

Republican insiders will hit hardest at theme of peace, prosperity, progress under Eisenhower.

Democrats will stress charges of weakness in nation's defense program, abuse of small business, farm situation--in that order.

G.O.P. professionals fear Democrats are saving sensational, damaging charges about military strength for late in campaign--when refutation is difficult.

Democratic leaders are watching for new disclosures of corruption during their Administration--as G.O.P. haymaker in campaign's final stretch.

▶AS ELECTION DAY NEARS politicians are watching nation's economic health.

General outlook is this:

Fall, winter will see higher indexes for production, income, consumption.

Optimism is the word.

In fact: In store for year's windup is biggest Christmas volume ever.

Feeling in capital is that nothing short of war can upset applecart.

Here's situation at a glance:

Employment--Fall pick-up in non-agricultural employment should put total near 66 million by election day.

Consumer debt--Total outstanding is $37 billion (new high) but repayments are running high.

Personal income--Direction is up from current $324 billion (annual rate) level.

Note: New model auto sales will be good test of consumer confidence.

'57 models will start making appearance in next few weeks. Makers, dealers count on styling change to boost buying.

▶WATCH FOR CONGRESSIONAL investigations to make news during fall, early winter.

Plans are getting underway now.

Here's what to look for:

Taxes--House committees will study provisions, administration of tax code, excise taxes, customs, tariffs, trade agreements.

Joint Committee on Internal Revenue Taxation will make broad tax survey.

Chief topic will be need for changes.

Foreign aid--Objectives are to define basic philosophy of programs, find new means for measuring accomplishments.

This could lead to policy changes.

Lobbies--Registration, lobbying practices will be looked into.

You can expect headlines.

Agriculture--Farmer-to-consumer price spread will get attention.

Small Business--Senate wants to know if small firms get steel they need.

Welfare--Senate group will study problems of old age, retirement.

St. Lawrence Seaway--Senators will check on construction progress.

Monopoly--Television, aviation, other regulated industries will get airing.

Credit--Group will examine need for new rules in banking and credit.

Traffic deaths--Proposed remedies for accident toll will be taken up.

▶LABOR'S POLITICAL SUPPORT of members of Congress will be determined by voting records on 20 issues in Senate, 19 in House.

Records on right or wrong voting go to 15 million AFL-CIO members.

Local groups will use list in making indorsements for re-election.

Significantly, only a third are labor issues.

Other issues are grouped under general welfare, domestic policy, foreign aid.

▶HOW DEEP IN POLITICS is labor?

AFL-CIO claimed 154 delegates, 33 alternates to Democratic Convention, 2 delegates to Republican Convention.

How can businessmen get results in politics?

See page 40.

▶CONSUMER CREDIT STUDY--most comprehensive ever made--will be ready by year's end.

Research is being handled by Federal Reserve Board for President.

Board is polling auto, appliance, other industries to determine business thinking on soundness of credit buying, explore possible need for controls.

In addition, economists are being asked to make over-all analysis of how credit buying fits total economic fabric.

No legislative recommendations are expected to emerge from study. But it

will yield guidelines on how far families, persons should go in making credit purchases.

▶HIGHWAY PROGRAM WILL SPUR growth of state, federal road agencies.

U.S. Bureau of Public Roads expects to grow 25 per cent in size during 13 year life of program.

Bureau now has 3,000 employes, 9 division offices in U.S.

Even greater growth is anticipated in highway departments of 48 states.

Meanwhile, first contracts for construction under mammoth program have been awarded.

Watch for more this month and next.

Delay in getting program underway in some states will result from shortage of engineers, legal tangle over right-of-way, other factors.

Aerial surveying, use of electronic computers, other short cuts will ease engineering headache.

But right-of-way problem, outmoded highway laws are another matter.

For latest on problems which highway program has spawned see page 96.

▶HERE'S WHAT SOCIAL SECURITY amendments mean:

Tax payments on earnings up to $4,200 will go up Jan. 1 from 2 to 2¼ per cent for worker, employer alike (from $84 to $94.50 each).

Self-employed will pay 3⅜ per cent instead of 3.

About 800,000 women can begin drawing benefits at age 62 instead of 65.

About 250,000 permanently and totally disabled persons can claim retirement benefits at age 50.

Another 825,000 self-employed farm owners, lawyers, dentists, chiropractors, veterinarians, naturopaths, optometrists, osteopaths will be covered for first time.

Note: Altogether, 74 million Americans are affected by new Social Security Law.

▶LABOR'S DRIVE FOR SHORTER workweek will get underway this month--on 11th.

That's when AFL-CIO opens conference on subject in Washington.

Chief topics:

How working hours were reduced in past, how best to get further reduction now.

Major tests will come in next Congress and in auto contract negotiations in 1958.

Labor's ammunition:

Study by Congress' Joint Economic Committee that shows working hours will drop 4 a week by '65--on basis of current trends.

▶STEEL SETTLEMENT FORESHADOWS shape of union demands in other industries.

You can look for labor to shoot at higher targets.

Seen from Washington, here's what unions will seek:

Supplemental unemployment full-year pay at 65 per cent of take-home pay.

Monthly pensions computed on basis of $2.50 for each year of service--not including Social Security.

Vacations up to 3½ weeks for workers with 25 years of service.

Compulsory union membership for all new employes.

▶COST OF FRINGE BENEFITS averages $819 a year per employe--up $99 in 2 years.

That's finding of new survey by U.S. Chamber's Economic Research Dept.

As per cent of payroll, it's 20.3 now compared to 19.2 per cent 2 years ago.

Employes pay 3.5 per cent of payroll as their share of fringe costs--chiefly for OASI, private pensions, insurance.

Complete 40-page study will be available this month from U.S. Chamber of Commerce, Washington 6, D.C., for $1.

▶ARMY'S FIRST ATOMIC division--101st Airborne--takes shape this month.

Pentagon says it foreshadows atomic army of the future.

Based at Ft. Campbell, Ky., it's air transportable overnight to brushfire war anywhere in the world.

Its features:

Each of 5 combat groups is self-contained force.

Fire power includes atomic rockets.

Large self-propelled guns can be parachuted.

Also has new light trucks (Mechanical Mule), light weight construction equipment, observer aircraft, helicopters.

Signal equipment features airborne TV

to enable commander to view all front-line sectors at once.

New rapid mobility is calculated to end creeping aggression.

▶ATOMIC FLIGHT IS SOMETHING you'll hear more about. It's near.

First Air Force flight with hot atomic reactor aboard was made year ago this month--Sept. 17.

Since then flights have been numerous.

Plane--Convair NB-36H--takes off from Fort Worth, climbs over unpopulated sands of New Mexico.

In high sky, reactor is turned on.

Purpose--not to power engines--is to test radiation on plane's instruments, equipment, airframe.

No. 1 problem: Shielding crew, airplane from reactor's rays.

When that's solved, atomic flight is next step.

How soon?

Air Force won't say, but officers in Washington radiate optimism.

Note: Large paratrooper plane trails reactor plane during flights.

If reactor should crash, paratroopers would bail out, enclose area to protect onlookers from radiation danger.

▶MULTIMILLION DOLLAR business opportunity with no takers...

Impossible?

Atomic Energy Commission says it's true.

Business is recovery, reprocessing of atomic fuel scrap--dross, choppings, pickling-tank sludge, floor sweepings.

AEC estimates annual value of this material now at $2 to $3 million.

It'll reach $20 million by 1959.

Annual value by 1970 will soar to $800 million if installation of nuclear reactors goes as expected.

Why aren't companies getting into this business?

Many feel it would involve hopeless red tape. AEC says not.

Scrap at present is being stored.

Ultimately, says AEC, if private enterprise doesn't take job on, government will be forced to.

Item: At Oak Ridge, Tenn., at mid-month AEC will present problem to all companies cleared for nuclear work.

Officials cite scrap recycling as just one of many business opportunities available in nuclear field.

▶THE NATION'S business schools face serious shortage of teaching and administrative personnel.

Experts in field expect 43 per cent shortage of business administration teachers by 1970.

It's expected that only about one half of the needed doctoral graduates will be available in next 15 years.

Note: Business administration college faculty members now number about 6,000.

Future requirements are estimated at 6,700 by 1960; 7,000 by 1965; about 12,000 will be needed by 1970.

Inadequate number of graduates, low salaries, are biggest cause of shortage.

▶TRADE-IN MERCHANDISING spreads to clothing shops.

Washington merchant (J. Elbert Tune, Suit Shop) noted that hundreds of items are taken from hands of users to make room for new products.

Why not men's suits?

He allows $10 trade-in for old suit, gives it to charity.

Result:

Big boost in sales--just when slack season usually occurs.

▶LOOK FOR: Up-coming election day voting-age population to exceed 104 million--about 3.5 million more than November 4 years ago. . .

More than 17,000 miles of new pipeline to be added this year to nation's 380,000 mile network. . .

Total missile spending by Defense Department to reach $1.3 billion in current fiscal year--twice sum spent by Air Force, Navy for all military aviation 15 years ago. . .

Used car sales to top 12 million this year. . .

New big jet planes to have engine starters that produce more power than 220 horsepower engine on Lindbergh's New York to Paris solo plane. . .

Long-distance movers to adopt move-now-pay-later policy. . .

Total school enrollment this month to go about 2 million higher than year ago when U.S. total was 39.2 million pupils and students.

Letters from businessmen

Says thumbs down . . .

We have both heard it said that the present administration is an administration of big business. I am wondering if in our present scheme of things that everything isn't big business. I have been watching your magazine to see if you ever recognize small business and its problems. When the July issue arrived your magazine went straight in the wastebasket as your leading article was "Nine Ways to Measure Your Managers." Is there any reason why small business should exist, or should all of our economy be run by a few large corporations?

CLAYTON M. ROWE,
Watervliet Hardware
Watervliet, Mich.

. . . says thumbs up . . .

Enclosed find 50 cents for 10 copies of "Nine Ways to Measure Your Managers," a very good article. My compliments to the magazine and the author.

LEO B. LAVIN,
The Sugardale Prov. Co.
Canton, Ohio

. . . says send me 100

I have read with great interest your article entitled "Nine Ways to Measure Your Managers," appearing in the July issue. I would like to request that you send to this office to my attention 100 reprints.

PAUL R. MINNICH, JR.,
General Sales Mgr.,
The Yale & Towne Mfg. Co.,
Philadelphia, Pa.

►*372 requests for 5,677 reprints so far.*

Decisions in India

Your article "How to Make Business Decisions" in the April issue is interesting. On this same topic I enclose my own chart showing the various steps in executive decisions. Maybe the diagnosis differs in our atmosphere:

1. The problem, when defined and analyzed, is clear and is more susceptible to a solution.

2. Tradition is a dominating factor in all old civilized countries. While tradition has its great importance on the social side, it is an impediment in the economic field.

3. Experience is generally overrated in our country. In all dynamic subjects, experience is not worth more than 25 per cent. Mere experience, without development, is more a hindrance.

4. Any decision is made in the light of the objectives of the management. Often the objectives of the management are not specific.

5. By study and association (not social contacts) the executive widens his intellectual horizons, and is in a better state to solve any problem.

6. In decision making, the faculty of thinking logically and weighing all the aspects is a must.

7. Tame executives are prone to take minimum risk decisions without considering long-range effects.

8. Even with a well thought-out decision, it requires courage of conviction on the part of the executive. Especially when a decision is supposed to contradict the views of some other executives, the greatest temptation is to follow the line of least resistance.

9. Decisions mostly demand action. To implement a correct decision is a job by itself. In a few cases, no action is required.

C. SIVAJEE RAO,
1st Line: Arundelpeta,
Guntur 2, India

Footnote to a footnote

Reference is made to an article in the July issue "Business in Politics—How Far You Can Go." You have listed the states which prohibit contributions by either corporations or unions in state elections. There is a question in our minds as to whether or not we are interpreting correctly the requirements for New Jersey.

You have indicated under footnote (1) insurance corporations. Are we to interpret in the absence of a check mark that the state of New Jersey prohibits contributions either by corporations or unions in state elections with the exception of insurance corporations?

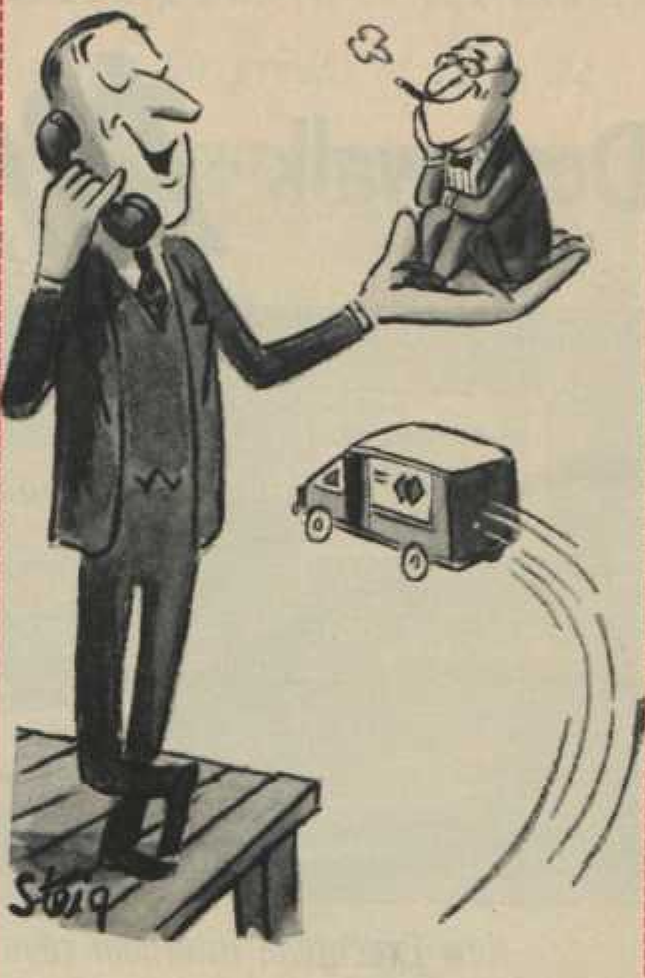
DAVID G. KELLER,
Reaction Motors, Inc.,
Denville, N.J.

►*Footnote means New Jersey prohibits political contributions by insurance companies only. Check marks after other states means they ban contributions by corporations generally.*

Credit insurance defined

On page 70 of the June issue of NATION'S BUSINESS there appears an article, "Insurance Growth Points to Trillion Dollar Industry." In the

Slow shipping had Sam in a most pressing plight
The Boss put the squeeze on with all of his might



Now shipping is swift—there's no strain or duress
Sam calls on dependable **RAILWAY EXPRESS!**

The big difference is

Whether you're sending or receiving, whether your shipment is big or small, whether you're shipping here or abroad—always specify Railway Express. You'll find it makes the big difference in speed, economy, and safe, sure delivery. And now you can make fast, economical shipments via Railway Express Agency's new international air and surface connections. It's the complete shipping service, free enterprise at its best.

RAILWAY EXPRESS AGENCY

...safe, swift, sure

Railway Express International Service now includes affiliations with: SEABOARD & WESTERN (and connecting carriers) TACA . . . TAN AIRLINES • also SCHENKER & CO. and the AMERICAN EXPRESS COMPANY foreign connections.

third column on page 70 there is a subtitle "Credit Insurance." Our company has been in business since 1893 and we have been writing Credit Insurance since that time. We feel we have earned the right to call our product "Credit Insurance," and we have been advertising it as such.

It is a natural consequence, therefore, that we regret the carelessness in handling product names to the extent that references are misleading. This article relates to credit life insurance and credit disability insurance. It is not Credit Insurance. Your writers are not the only ones who have carelessly handled this reference. In each instance, where we have learned about it, we have asked that in the future the product be properly identified so as not to be misleading.

Practically everyone to whom we have written has agreed to call the product credit life insurance or credit disability insurance, when the occasion demands. We are proud of our reputation and of our product. We want to keep it that way.

J. L. McCAULEY,
Executive Vice Pres.,
American Credit Indemnity Company,
Baltimore, Md.

U.S. in 1801

The record of the election of a President by the House of Representatives in 1801 indeed shows that on the 36th ballot Mr. Jefferson received the votes of 10 states, Mr. Burr the votes of four. It also shows that on every ballot two states were not counted as voting.

Thirty-five times that distinction was shared by Vermont and Maryland. On the 36th ballot Vermont and Maryland count as voting for Jefferson, in consequence of the abstention of the Federalist representatives who had theretofore voted for Burr. Thus Jefferson increased his eight states to 10, the Constitutional majority and one to spare. In consequence of Federalist abstentions in Delaware and South Carolina representations, on the 36th ballot those states replaced Vermont and Maryland as blanks, and Burr's support fell from six states to four.

Their not voting misled you into saying that there were only 14 states then. [State of the Nation, June]

EMMETT L. BENNETT,
Cincinnati, Ohio

▶*Sixteen is correct.*

Sweet talk

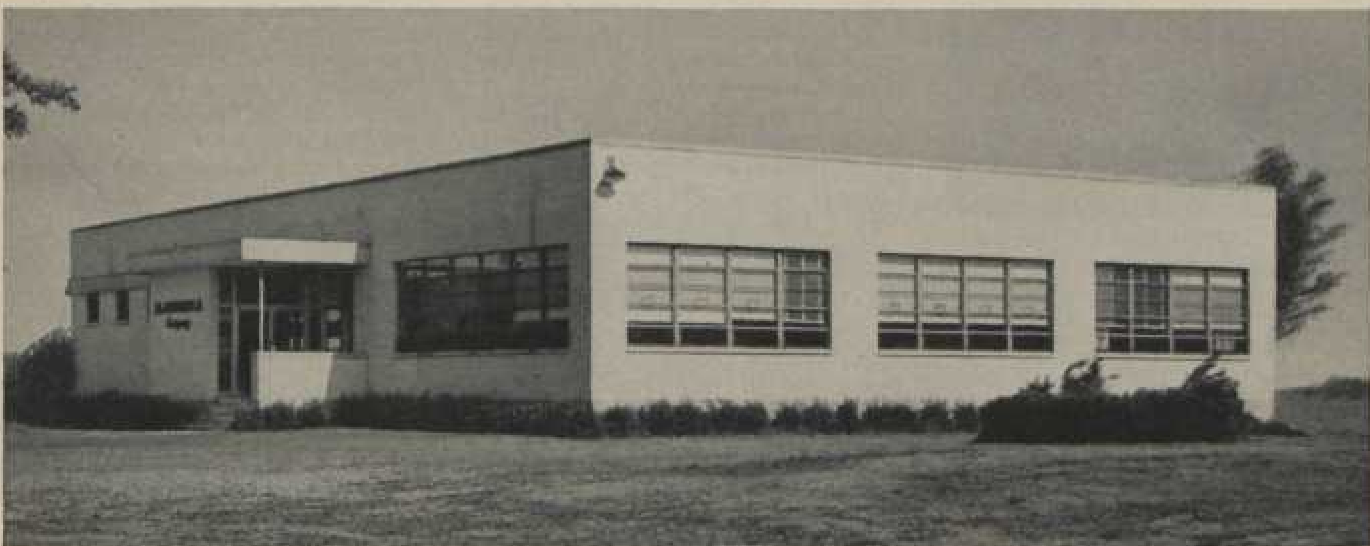
Attached is my check in the amount of $1.05 for which please send me seven copies of "How To Reorganize Without Crisis" [July]. The article is a honey!

MYRON CLOSE,
California Packing Corporation,
San Francisco, Calif.

Today's plan for tomorrow's giants

The Travelers Employee Benefit Programs for groups of 10 to 24

Many giants of industry and commerce—once budding enterprises with modest payrolls—have, for decades, provided protection for their employees under Travelers Group insurance plans.



For the giant of tomorrow—the business now with 10 to 24 employees—The Travelers offers a comprehensive plan of employee benefits unheard of in earlier days.

If your business is a "giant of tomorrow," let your Travelers agent or broker show you how you can put this plan into effect *today*.

**Minimum of 15 employees required in Florida*

AMERICAN FAMILY INDEPENDENCE · THROUGH THE TRAVELERS ·

YOU WILL BE WELL SERVED BY

THE TRAVELERS

INSURANCE COMPANIES, HARTFORD 15, CONNECTICUT

All forms of personal and business insurance including
Life • Accident • Group • Fire • Automobile • Casualty • Bonds

PROGRESS:

Gas as chemical will change your markets

NATURAL GAS is writing a new chapter in the story of this country's scientific progress. Already 150 firms have invested $4 billion in plants turning gas into petrochemicals.

Production of petrochemicals from oil and gas together is $3 billion annually—with gas providing 70 to 80 per cent of the total, tonnagewise.

The amount of gas going into chemicals is expected to triple soon and the trend toward expansion to continue for at least 50 years.

Agriculture, mining, textiles and many other industries will feel the impact of this development.

A federal study of energy reserves has estimated U. S. gas deposits at 1,000 trillion cubic feet within another 25 years. The natural gas industry makes a far more conservative estimate of something under 300 trillion feet. All but about three per cent of this now goes into domestic and industrial fuel. But experts say that the three per cent will rise to 10 per cent of the net production within the foreseeable future. The major derivatives from gas are methane, ethylene, propylene, butylene, hydrogen. From these come not less than 500,000 known compounds.

What is happening at present? Six of the 30 major pipeline companies are now beginning to diversify the uses of the gas which they move. A spokesman for one of them says:

"We are turning to petrochemicals for a very basic reason of engineering and economy. The streams of gas which we transmit to the utilities is so high in British Thermal Units that we can cream off—extract—the elements for chemical manufacture and still meet the B.T.U. needs of our fuel customers."

El Paso Natural Gas Company is building a $32 million dollar plant near Odessa in West Texas. A partner in this venture is General Tire and Rubber Company of Akron, Ohio. Together, these firms are going in for the manufacture of improved synthetic rubber. El Paso supplies the basic chemical ingredients which are styrene and butadiene. These substances come from the butane and propane of the creamed-off gas from the pipeline. General Tire will supply the know-how of rubber research and manufacture.

Tennessee Gas Transmission Company is partner in a chemical plant at Houston with the Olin-Mathieson Chemical Company of Baltimore.

Joe J. King, chief engineer of the pipeline firm, says "plastic bone replacements," for surgery are among the products under development.

Panhandle Eastern Pipeline Company of Kansas City, has joined with National Distillers to establish a 26-million pound capacity plant near Tuscola, Ill. The product is commercial alcohol.

Pacific Northwest Pipeline Corporation is building a petrochemical plant in Washington State to manufacture ammonia, the end-product of which is fertilizer.

Mississippi River Fuel Corporation of St. Louis is interested in one or more petrochemical plants for general research and development.

The United Gas Corporation of Shreveport has built a multimillion dollar plant near Pensacola.

The gas industry predicts that, in time, all pipeline firms will be full or part partners in petrochemistry.

In addition to the carriers, several large integrated oil companies have gone in for nonfuel uses of natural gas. Shell Oil and Phillips Petroleum, both in Houston, are experimenting in a big way.

Standard Oil of Indiana has taken over a large plant in Brownsville, Texas, and is making a conversion of natural gas into the rather astounding dual production of stock feed and motor fuel.

Gas products are already in use for animal husbandry. At a lush experimental farm near Wilmington, cattle with transparent windows in their stomachs are contentedly munching on Du Pont petrochemical

One airplane in a class all by itself

The exciting new Fairchild F-27 occupies a special place in the air world of today.

- *the only twin propjet airliner in production for local service airlines.*
- *the world's fastest executive plane — up to 280 mph cruising.*
- *flies more smoothly, with less noise, and can climb far higher than any twin-engined airplane now in airline service.*
- *the economical F-27 more than pays its way on short and long hauls . . . up to 2,250 miles.*
- *has unusually good short field operation and single-engine performance.*
- *it's the least expensive aircraft in its field at $540,000* — costs far less to buy, to operate, to maintain.*

There are no others in the F-27 class—it's one airplane in a class all by itself.

*AIRLINE: PLUG IN RADIO UNITS EXTRA.
EXECUTIVE: PLUG IN RADIO UNITS AND CABIN INTERIORS EXTRA.

FAIRCHILD
F-27 Friendship

THE FINEST AIRCRAFT FOR AIRLINES
CORPORATIONS AND MILITARY SERVICES

Address inquiries to: R. James Pfeiffer, Executive Director of Customer Relations, Fairchild Engine and Airplane Corporation, Hagerstown 15, Md.

mixtures while veterinarians study the digestive process.

On the King Ranch in Texas, gas-derived insecticides have changed the whole nature of the wild pasture, which is now highly nutritive to the cattle. The same thing is being done on cactus growth in several western areas. Du Pont has a whole line of weed killers from petrochemical beginnings. Dr. J. K. Hunt, technical adviser at Du Pont, gives a long list of Du Pont trade names for synthetic textiles, fabrics, fibers, fertilizers, insecticides and photographic films which come, in part or whole, from petrochemicals. Several other chemical firms have new developments.

Nitroparaffins are an entirely new line of commercial chemical from natural gas. They are being developed by Commercial Solvents Corporation at a new plant at Sterlington, La. A new hydrogen cyanide process from natural gas is being developed by The Texas Company.

Ethylene and ammonia still account for top volumes of gas chemicals, but the future seems to belong to a fairly new process, which produces acetylene as a by-product of natural gas, which is used as a starting material in making chemicals. One technician says that in the next 10 years the percentage increase of natural gas for acetylene will surpass all others. A General Aniline and Film plant in Calvert City, Ky., is said to be producing some acetylene-base chemicals "never before available in commercial quantities."

Beginnings of the petrochemical industry are in some scholarly dispute. Some say it began as long ago as 1916-19 when processes were developed for the production of ethanol and isopropanol. Others claim that the real beginnings came in 1926 with the production of methanol and formaldehyde from natural gas at Tallant, Okla. Still others fix the birthdate in 1928 at Clendenin, W. Va., with the first large-scale production of ethylene glycol. Another significant development in the 1920's occurred when the Cities Service Oil Company, trying to stop pipeline corrosion, found that oxygenatic chemicals were forming by reaction.

Anyhow, it is certain that maturity was not reached until 1941 when Union Carbide and Carbon Corporation established a petrochemical pioneering plant in Texas City, Texas. Soon many of the great names in commercial chemicals—Du Pont, Monsanto, American Cyanamid, Dow, Celanese—were taking part in the World War II boom in synthetic rubber, aviation gas, and high explosives.

The industry is located largely in the South and will be a significant factor in the rise of that region. Petrochemical plants will continue to be strung along the gas pipelines which fan out all along the Texas-Louisiana-Oklahoma oil fields. These plants will offer direct competition for workers with the textile mills lately relocated in Dixie.

Experts in the petrochemical industry warn that there is always a risk somebody will come up with a new product or new process and change the picture. But otherwise petrochemical development from natural gas is attractive because:

1. The market varies little from month to month, in contrast to the market for heating gas.

2. This all-season factor means year-round, economical plant use.

3. It is a business where a newcomer (such as a gas producer) can avoid getting mixed up in the very complex manufacturing affairs by providing raw material direct to an experienced merchant (such as a chemical company).

4. It is a means of reducing the storage problem of natural gas.

5. It is a booming business with no sign of a letup.

6. Petrochemicals already supply the raw materials for 80 per cent of our aliphatic chemicals, 50 per cent of our aromatics, 80 per cent of our synthetic rubber, 75 per cent of our detergents, 75 per cent of our fertilizer ammonia, 75 per cent of our industrial alcohol.

7. Even with oil and coal in the field as competitive raw material sources, there is room for all.

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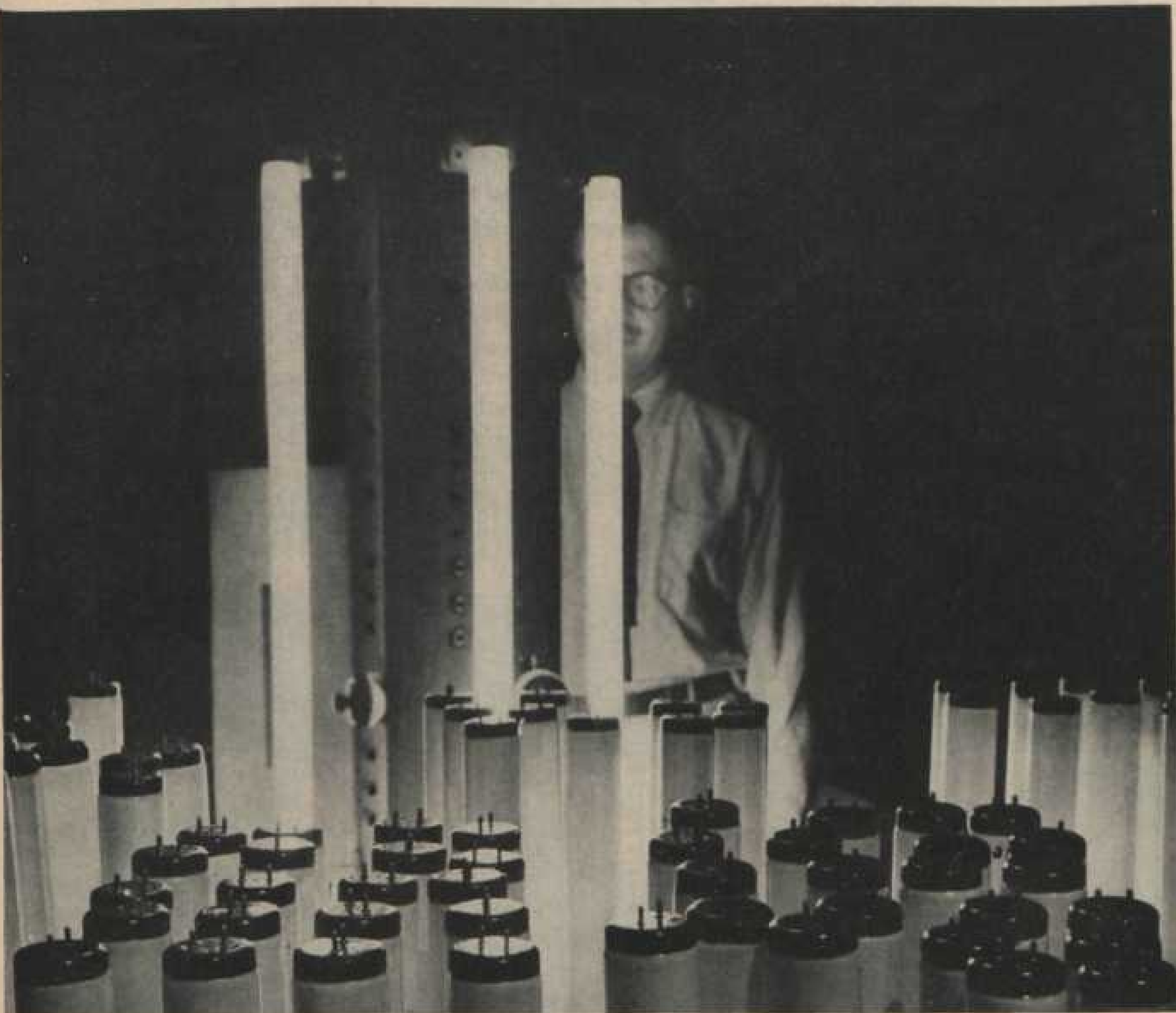

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Trends
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THE STATE OF THE NATION BY FELIX MORLEY

Citizen who fails to cast vote takes first step toward loss of franchise

THIS YEAR the period between the presidential nominations and the election is more than a month shorter than heretofore. Nevertheless no voter can argue that he won't have enough time, by Nov. 6, to make up his mind.

Indeed, no other people, at any period of history, has ever been allowed the deliberation that we possess in the choice of those who govern. In hereditary monarchies the heir to the throne is of course known even before his reign begins. In the case of a dictator, whether ancient Roman or modern Russian, the succession is always quickly arranged, to diminish the risk of civil war between rival aspirants for power. Even in other countries where the chief executive is chosen directly or indirectly by popular vote, campaigning is much more compressed than it is in our republic.

• • •

The reason traces to the difficulty of travel and the slowness of communication when our nation was established. But while those conditions have been completely altered by inventions such as the airplane and TV, we cling to the belief that citizens should not be hurried in the voting process. This conservatism gives rise to a new difficulty which is causing a good deal of concern. During the protracted period of largely repetitive debate people get bored, with the result that when election day finally comes it is something of an anticlimax.

Certainly it is a fact that in the United States the percentage that actually votes is lower than in most other countries with free elections.

The comparative figures may be better this year, because of the shorter campaign and other reasons. Almost certainly they would be better if people would give consideration to the long effort that has been necessary to make it possible to vote, even between Tweedledum and Tweedledee. In the past quarter century we have had plenty of indication that it is appallingly easy to eliminate free voting altogether.

Yet the desire to express a personal opinion, on which the whole complicated procedure of political election is built, is certainly a natural human want. And it has long been related to the politics of civilized communities. In Greece they have unearthed clay ballots proving by the rudely inscribed names that the Athenians passed collective judgment on their officials 2,500 years ago, much as we shall do in November.

Somewhat later, though still more than a century before the birth of Christ, the Romans introduced the secret ballot, for electing senators. But this great innovation was ahead of its time, and was terminated when the republic fell. After that, almost 2,000 years had to elapse before the practice of expressing a political choice privately became established custom, in Great Britain and the United States. As in Rome, so in our time, a necessary step in eliminating popular government is to end the secret ballot.

So there is good reason for constantly empha-

sizing that the right to vote without apprehension is a rare and recently acquired privilege, which can be lost much more easily than it was gained. Both presidential candidates, we may be sure, will make the point in their closing campaign speeches. It has become almost traditional to say then that while I want your vote I would almost prefer you to vote against me than not to vote at all. This plea should be taken as wholly sincere. And the importance of heeding it becomes clear when one reflects on the cumulative effect of the attitude that says the vote is unimportant.

* * *

The voter who is too busy, or too indifferent, to go to the polls is actually ready to surrender his rights as a citizen. He is saying, in so many words, that he will accept without protest whatever his government, local, state or federal, may decide to dish out for him. The slogan that "taxation without representation is tyranny" has no applicability to the nonvoter, since he has chosen to be without representation.

Government will continue to operate, whether people vote or go fishing election day. And under a system of representative government those in power are entitled to act for the whole electorate, abstainers as well as participants. So the nonvoter is more influential than he realizes. He thinks he has merely sacrificed his right to express a political choice. Actually he has given those whom others elect a positive mandate to govern in his behalf.

This becomes clear if we visualize a small community—say of 100 voters. In choosing their mayor 30 of these qualified citizens vote for Mr. A, 20 for Mr. B, and 50 fail to vote, feeling rather superior about it because they argue that neither candidate comes up to their high ideals of what the mayor should be. So Mr. A is elected, perhaps largely through the effort of a few people who live on the wrong side of the tracks. Nevertheless he is now fully justified in saying that only 20 per cent of the community is opposed to his program, which is likely to be slanted in favor of the small minority to which he owes election. So the outcome for the nonvoter is just what it would have been if he had cast a ballot for Mr. A, whom he considers even more of a blatherskite than Mr. B.

Although the individual nonvoter may justify his political indifference, its cumulative effect is to give reality to a fiction called the General Will, which has had and continues to threaten terrible consequences for mankind.

The theory was first voiced in Paris, shortly before the French Revolution, by the Swiss philosopher Jean Jacques Rousseau, whose little book entitled "The Social Contract" has certainly been one of the most influential ever written. In its brief compass Rousseau argues plausibly that everybody "places his person and all his power under the supreme direction of the General Will," and in so doing exchanges his natural liberty for what Rousseau calls civil liberty. This civil liberty, however, is limited to what those who voice the General Will permit.

The result of this theory soon became apparent in the Reign of Terror. Those who guided the French Revolution, in the name of Rousseau, became more and more fanatical; less and less tolerant of any opposition. Before long, dozens were being daily herded to the guillotine, often on the mere charge that they showed no enthusiasm for the General Will.

Currently we see the same theory operating under communism, which also claims to speak in the name of "The People" and indeed calls its constituent political units People's Democracies. The communist rulers do not for a minute admit that they are tyrants. On the contrary, they claim to voice a mystical General Will which is never openly challenged because only communists may express an opinion or vote. Incidentally, the theory of the General Will explains why Stalin could be so smoothly downgraded by those who earlier were his loyal lieutenants. At that time he personally voiced the General Will, so could not properly be opposed. Only since his death is it realized that Stalin often misinterpreted and abused the sovereign will of The People.

* * *

The person who voluntarily excludes himself from voting in our free elections is playing into the hands of those who would like to dictate through a tight minority control. By mere inaction the nonvoter withdraws from participation in formulation of the General Will. Having excluded himself by choice he is in no position to protest if he is later excluded by command.

Failure to exercise the franchise is thus seen as the first step towards disfranchisement. When that is accomplished, a community is at the door of what is accurately defined as "totalitarian democracy"—a system under which a small minority, always speaking in the name of "The People," voices the General Will and takes good care to see that none shall oppose it as defined by them.

Viewed in this broader light, any unnecessary failure to go to the polls on election day becomes something much more serious than a mere illustration of personal indifference. It becomes reasonably comparable to a positive, though unintentional, alliance with subversion. For the willing abdication of citizenship gives aid and comfort to those who would gladly undermine our constitutional guarantees, in order to bend the lives of "The People" to a dictatorial conception of Rousseau's General Will.

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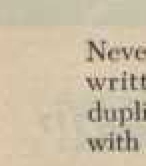

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WASHINGTON MOOD

BY EDWARD T. FOLLIARD

Senate races are a good supporting card for the presidential main event

HARDLY less interesting than the campaign for the Presidency this year will be the fight for control of Congress, and especially a half dozen or so contests for seats in the United States Senate.

The whole country will be watching the battle in Oregon, where Sen. Wayne Morse is fighting for his political life against former Secretary of the Interior Douglas McKay.

Next to the Presidency itself, there is no election contest that the Republicans would rather win than this one. Senator Morse says he is "the Administration's Number One target" in the congressional races. The Republicans don't deny it.

The G.O.P. professionals are furious with Senator Morse, and have been since the 1952 compaign. The Oregon lawmaker, twice elected to the Senate as a Republican, had been an early rooter for General Eisenhower. After the '52 convention, and as the campaign was under way, he began to grow critical. Finally, two weeks before the election, he said he was "completely disillusioned" with General Eisenhower, and announced that he would vote for Adlai Stevenson.

For a time thereafter, Senator Morse listed himself as an Independent. As such he went into Oregon in the off-year campaign of 1954 and did much to help young Richard L. Neuberger capture the Senate seat held by Guy Cordon, a Republican. Senator Neuberger was the first Democrat the voters of Oregon had sent to the Senate since the Wilson Administration, 40 years before. His victory gave the Democrats control of that body.

After the 1954 election, Senator Morse formally registered as a Democrat. Thus in one term he had been successively a Republican, an Independent and a Democrat.

• • •

The keen desire of the Administration to defeat Senator Morse was shown when Mr. McKay, at the urging of the Republican National Committee and the White House, gave up the cabinet post to try to wrest the senator's seat away from him. President Eisenhower even broke a rule—that of not endorsing a candidate until after he has won the nomination in a primary election. He gave Mr. McKay a quick and hearty blessing.

Senator Morse said that he "welcomed" Mr. McKay's candidacy against him, and there is good reason to believe that he meant it. A courageous fighter, Senator Morse wants to stress what he calls "the giveaway record of the Administration in the field of natural resources." He feels that former Secretary McKay is the personification of that "giveaway" record.

It is not going to be a polite campaign, this one in Oregon. Senator Morse has said that Mr. McKay was "the worst Secretary of the Interior since Albert Bacon Fall," a reference to the man who went to jail in the Teapot Dome scandal of the Harding Administration. Mr. McKay has called Senator Morse a man whose political integrity cannot be relied upon, a "turncoat" who filibustered under "three opposing banners in one term."

Both Mr. McKay, 62, and Senator Morse, 56, have records as vote-getters. Which one will win probably will depend largely on how big a vote President Eisenhower piles up in Oregon, although it should be kept in mind that Oregonians think nothing of splitting their ballots.

From an emotional standpoint, the Senate contest that the Democratic high command would most like to win is the one in Maryland.

In the beginning this contest pitted former Senator Millard E. Tydings, a Democrat, against John

Marshall Butler, a Republican, who took his Senate seat away from Tydings in 1950.

In late August, Mr. Tydings withdrew from the race because a severe attack of shingles made it impossible for him to carry on a vigorous campaign. His withdrawal will not change the Democrat's sentimental reasons for fighting to regain this seat. The background includes Sen. Joseph R. McCarthy of Wisconsin, the communists-in-government issue, and the Democrats' indignation over what they have long felt was a reflection on their patriotism.

Mr. Tydings had been in the Senate 24 years. He was a hero in World War I, being awarded the Distinguished Service Cross for gallantry on the battlefield in France. In 1938 he became something of a political hero when President Franklin D. Roosevelt made him a target in his famous "purge" campaign. Senator Tydings was re-elected by a tremendous majority. He was re-elected again in 1944. Then early in 1950 he was given an assignment that was to cause him trouble.

Senator McCarthy, just coming into prominence as a Red hunter, made grave charges about the presence of communists in the State Department. Senator Tydings was made chairman of a Senate subcommittee assigned to investigate. When the investigation failed to sustain the charges, Senator McCarthy accused Senator Tydings of a "cover-up and a whitewash of communists in government."

In the Maryland senatorial battle later in 1950, Senator McCarthy was a master-mind in the Butler campaign to defeat Tydings.

After the Butler victory, the Senate ordered a subcommittee to investigate.

The highlight of this inquiry was the testimony about a four-page tabloid newspaper that the Butler people got out in their fight against Senator Tydings. The tabloid, published at McCarthy's suggestion, carried a "composite" or "fake" picture showing Senator Tydings and Earl Browder, communist leader, in intimate conversation.

Communist Browder had actually appeared at the hearings presided over by Senator Tydings, and had been photographed at the witness table. However, as was brought out in the inquiry, the photographs didn't show what the editors of the tabloid wanted to convey. So they took a 1950 photograph of Mr. Browder and pasted it alongside of a photograph of Senator Tydings which had been made in 1938 while he was listening to some highly pleasing election returns. This was the composite carried in the tabloid.

Some of Mr. Butler's own people were appalled by the tabloid and said so. The Senate investigating subcommittee issued a scalding report. It ruled that Butler should hold on to the Senate seat, but it had these things to say about his campaign:

A despicable "back-street" type of campaign of a form designed to undermine and destroy the public faith and confidence in the basic American loyalty of a well-known figure (Tydings) . . . The composite picture was "infamous" and was even "too odious" for Mr. Jonkel, Butler's campaign manager, who disapproved it . . . "if one candidate's campaign chooses to inject into an American election the poison of unfounded charges and doubts as to alleged subversive leanings, this tends to destroy not only the character of the candidate who is its target, but also eats away like acid at the very fabric of American life."

The report was adopted by a unanimous vote of the members of the Senate subcommittee. This meant that it was approved not only by the three Democratic members, but also by the two members of Senator McCarthy's own Republican Party.

* * *

It is certainly a weapon in the hands of the Democrats in the campaign to win back this seat, but it is doubtful if it is enough in itself to bring victory. Many Maryland Democrats have said they would have voted against Senator Tydings in 1950 even if there had been no "back-street" campaign. Here, as in Oregon, the outcome probably depends on the vote rolled up by President Eisenhower.

Indeed, Republican prospects for winning Senate and House seats everywhere will be riding with the President. He tried hard in 1954 to keep his party in control of Congress.

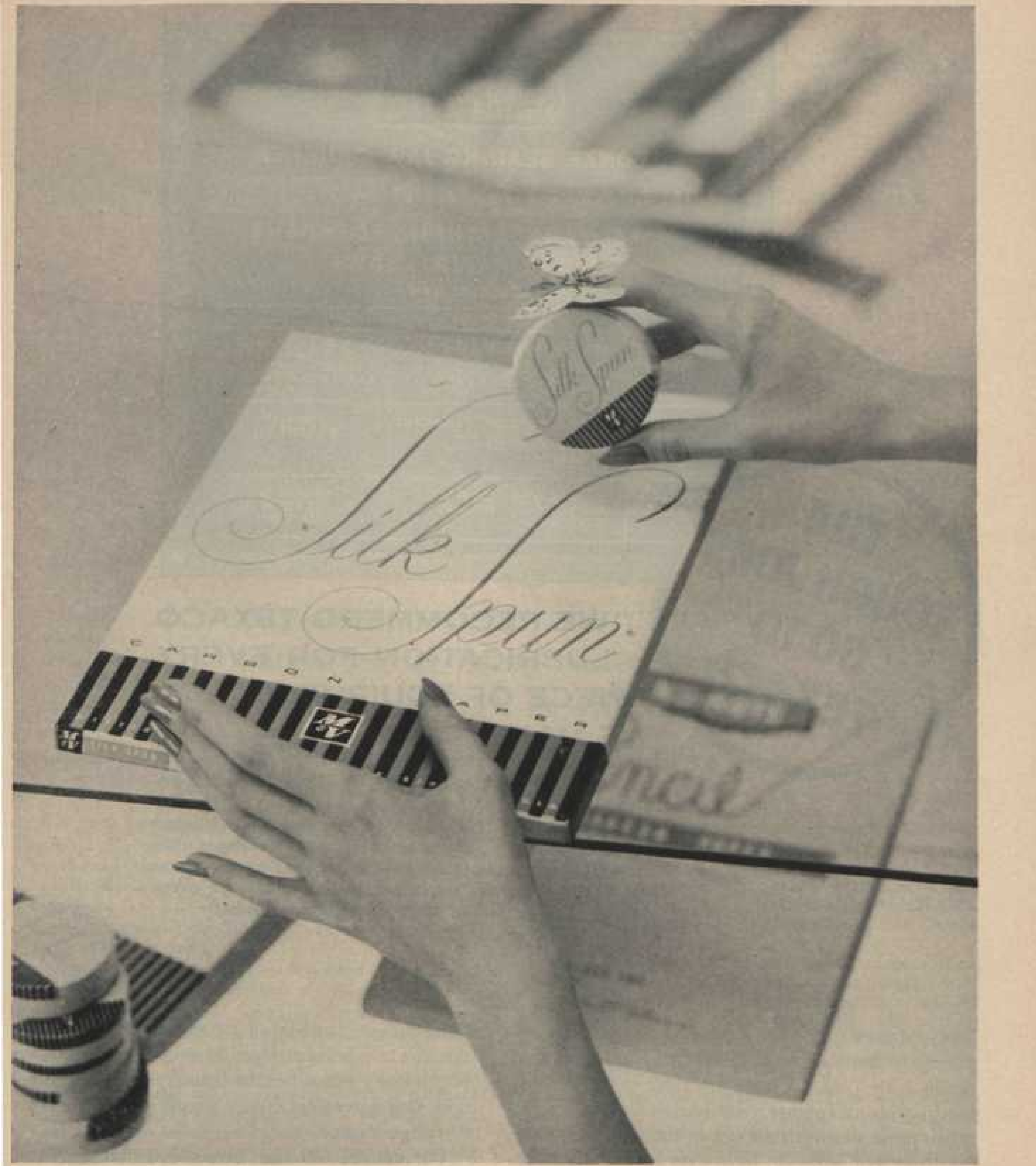
But this time, the Republicans tell themselves, it will be different—the magic name of Eisenhower will be on the ballot. Still, they acknowledge that they have a hard fight ahead.

Their problem is twofold, to persuade voters that it is important for a party to have both the White House and Capitol Hill, and to overcome some vote-getting Democrats who are threatening Republican seats.

A case in point is the situation in Ohio. Here the incumbent Senator is George H. Bender, a Republican, who holds the old Taft seat. His Democratic opponent is Gov. Frank J. Lausche, one of the greatest vote-getters in Ohio's history. What makes Governor Lausche such a menace to Senator Bender is that he appeals—or, at least, has appealed—to Republicans as well as Democrats. He has even hinted that he might vote with the Republicans in organizing the Senate if elected.

How worried the Republicans are about the Lausche threat may be judged from the fact that Secretary of the Treasury George M. Humphrey has accepted the chairmanship of a Bender-for-Senator committee, and is throwing all of his prestige and influence into the campaign.

The Bender people are out to raise a campaign fund of $400,000.



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GOVERNMENT SURPLUS BOOSTS TAX LOAD

A partial remedy with dramatic potentials is being concocted for the future. Here is what federal agencies are planning to do

UNCLE SAM is suffering from a multimillion dollar surplus property headache which will throb painfully for the next three to five years with little relief.

What hurts is this:

► Nobody can keep track of exactly how much unwanted property there is or even how much property the government owns.

► Supplies bought for millions of dollars often are sold for only thousands, or hundreds of dollars.

► One federal agency sometimes spends taxpayer money for goods another agency at the same time is selling at a terrific loss.

A partial remedy with dramatic potentials is being concocted for the future, however. And a batch of medicines in the form of businesslike merchandising techniques are being prescribed in the meantime to raise the return on property the government unloads.

Congressional concern over some phases of the federal property problem and rising public interest could force more sweeping action. One Senate subcommittee may hold hearings during the present congressional recess, its chairman told NATION'S BUSINESS.

Still, government officials close to the property problem frankly say no quick cure is in sight. The brightest hope—a plan involving electronic controls and possible savings of billions of dollars—will be up for top-level approval this month or next. Its full effects could not be felt for years, however. The surplus property headache is not new to government. The nation's founders realized its threat. Article IV, Section 3, clause 2 of the Constitution provides:

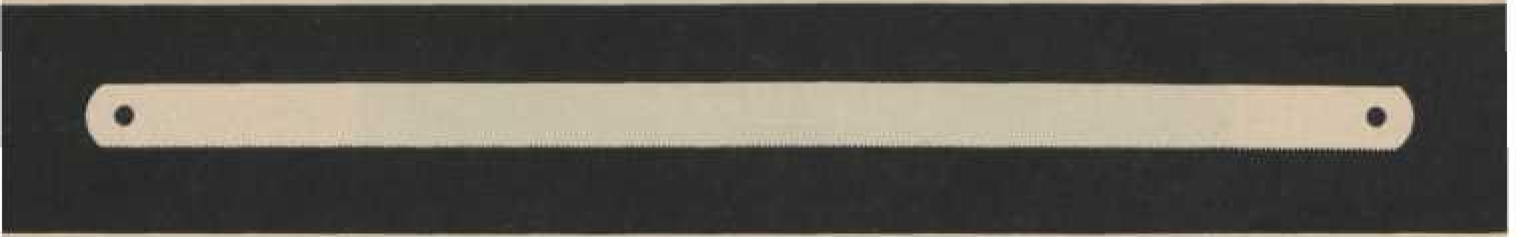
"The Congress shall have power to dispose of and make all needful rules and regulations respecting the territory or other property belonging to the United States. . . ."

But only in the past few years has the surplus property pile reached mammoth proportions. Today, government warehouses are disgorging annually about $2 billion worth of personal property from radar sets to road building equipment to false teeth. This is roughly four times the amount of surplus personal property unloaded four years ago.

At the same time, government disposal officials find themselves with about $300 million in real property to get rid of. It includes heavy industry plants, farm acreage, even partly submerged pilings in a North Carolina stream. This is eight or 10 times the dollar amount of four years ago.

Actually no one knows exactly how much surplus property the federal government has, or how much it is worth. In fact, no one knows how much property of any kind the government owns or what all of it is worth. No comprehensive inventory was undertaken until recently. The government's most detailed report on its ownings world-wide as of June 30, 1955, is out-of-date, admittedly incomplete, and properties are listed unrealistically at acquisition cost. Other regular gov-

The Navy in June, 1955 **SOLD** 4,788,144 unused hacksaw blades; but . . .



for fiscal '55, '56 & '57 it planned to **BUY** the same type blades

ernment reports also carry properties at acquisition cost despite the age or condition.

The 18-acre White House site, for example, is carried on the government's books at $1,000. Value of the national forests is not even listed in the inventory.

The inventory report issued by the House Government Operations Committee in March listed U. S. assets at $208 billion acquisition cost, with personalty amounting to $168 billion and realty running to more than $39 billion. A committee staff member calls the inventory "very conservative." If present day market value were known, "it could reach a half trillion dollars or more," he guessed.

Committee Chairman William L. Dawson of Illinois called the inventory—which will be taken each year from now on—a step forward "in encouraging efficiency and economy in the government's management supply program to facilitate the cross-servicing, distribution, procurement, stock management and control, storage, surplus disposal and warehousing of personalty." In the real property field, he said, the inventory "will affect the disposal of surplus property, restore property to private ownership, return such properties to tax rolls of state and local governments and encourage suitable acquisitions between government agencies. . . ."

Even if Uncle Sam knew of everything he owns, and where it is, his surplus property troubles would be far from solved. About two thirds of both personal and real federal property belong to the military. The Defense Department, often criticized for supply wasting, generates around 95 per cent of the federal personalty disposed of each year. The task force of the (Hoover) Commission on Organization of the Executive Branch of the Government, which looked into the use and disposal of surplus property, concluded:

"Unfortunately, in the desire of the Armed Forces to insure adequate logistical support, there are many instances of reckless planning and procurement far in excess of our needs. One can readily agree that some surpluses are unavoidable, but spot checks by the task force have demonstrated that, had good business management been employed, current surpluses would be billions of dollars less than they are . . . lack of business experience and training of military personnel are among the main contributing causes of wasteful property management. . . . Despite huge disposals there is evidence that inventories are increasing."

The Pentagon takes a different slant. "Obsolescence because of today's technological advances inevitably will make for huge inventories," according to Robert C. Lanphier, Jr., deputy assistant secretary of Defense for Supply and Logistics. His office determines defense needs, buys supplies and weapons and disposes of excess personal property.

Mr. Lanphier's point can be illustrated in the story of Boeing's KC-97 propeller-driven tanker used for fueling bombers in the air. The last of this model was built last month. At the same time the first KC-135, Boeing's jet-powered tanker, rolled off the assembly line. Hundreds of millions of dollars were spent on the old model. Some 888 planes were built. Now they must be disposed of—as must contractors' and subcontractors' inventories—as the new planes, made to service jet bombers, come into use.

One of Mr. Lanphier's lieutenants adds, "As long as you have a dynamic military program, you're bound to have things wearing out. Also when you buy four million items, as we do, you're bound to have some poor procurement."

Last year, the Hoover Commission reported the government as a whole "has mountainous accumulations of property which it would not have bought if it had a good inventory system." The Commission figured that with proper inventory control and more realistic stock levels, from $10 billion to $25 billion of supplies now in government warehouses could be eliminated. "Moreover," it said, "a large volume of stock on hand is obsolete or is rapidly becoming unsuited to military needs. Deleting it from the supply system will provide immediate saving. . . ."

A case in point: The military still has such World War I items as horseshoes and saddles on hand, a Pentagon disposal official says.

Besides obsolescence, wear-and-tear and faulty procurement, force-strength changes sometimes create unneeded property. "If it is determined the Army should go down by a half million men, we'd have a lot of excess underdrawers and everything else to get rid of," says one Pentagon official.

Little real thought had been given to the consolidation, transfer and sale of the government's surplus property before World War I. Normally disposal was by public auction by individual agencies. But when war ended in 1918, the War Department alone estimated it held a surplus pile of $1.5 billion. President Wilson transferred the property to the General Supply Committee of the Treasury Department for transfer and sale to other government departments. A series of agencies, including the War Assets Administration, have handled surplus property since.

The Federal Property and Administrative Act of 1949 finally established the General Services Administration, which now supervises surplus property of all federal executive agencies. It authorizes some departments, including the Defense Department, to sell their own personal property.

Under General Services Administration regulations, other agencies must report to GSA any property they no longer need which has a high potential for further

use elsewhere. This property is called "excess." GSA makes it known government-wide that the property is on the block.

Excess property of low potential use to most agencies—scrap, electronic materials, aircraft parts and bullets, for example—need not be reported. In fact, only about one third of all personal property that becomes excess is reported to GSA.

If no federal use is found for a property, it is declared "surplus," and is disposed of either by giving it to health and educational facilities in the states—this year civil defense organizations were included as donees—by selling it to the public, or by destroying it.

In the fiscal year that ended June 30, about 62 per cent of the personal property and 30 per cent of the real property declared excess and reported to GSA was sold.

Sales of surplus personal property have brought a return to the Treasury of only between 7 and 8 per cent of acquisition cost lately. Lack of demand and wear and tear are partial reasons.

Real property sales have been returning to federal coffers about 29 per cent of the acquisition price.

Though land values have soared in recent years, the average current market value of U. S. real property and the sale value are lower today than they were several years ago for two main reasons: More than half of the real property has factories, facilities and other improvements which have depreciated greatly since first acquired, and often exhorbitant prices were paid for realty and improvements when much of it was bought during World War II.

This meager return on personal property surplus sales has been a cause of concern for some time. Though effective disposal with the highest possible sale price is an end goal, the root of the problem, as spotlighted by the Hoover Commission last year, lies in determination of needs and inventory management, particularly by the military.

The Commission, for instance, reported this example:

Twenty-five standard items in inventory at Warner Robins Air Material Area depot in Georgia were examined. These represented stocks ranging up to 75 years' supply. In Mechanicsburg, Pa., at the Navy Ships Parts Control Center, stock on hand for 25 sample items would have lasted from 16 months to 128 years.

The task force acknowledged that some surpluses are inevitable in a defense establishment as big as ours. But it said retention levels are set so high as to result in a "massive accumulation of idle goods." And the reporting of excess is stalled by "the persistent tendency of the military to hoard against unknown or indeterminate demands. . . ."

As its primary recommendation, the Commission said the Secretary of Defense should lower stocks to "more realistic levels, particularly for common use military and other items which are available from current production or which rapidly become obsolescent."

When the recommendation was made, the military was already chopping away at its surplus hoard as part of Operation Clean-Sweep, ordered by the Pentagon in November, 1953, to unclog its supply system and get rid of frozen assets piled up for the Korean War. This helped create the wave of surplus that has been rolling out of military warehouses in the past few years.

As its second recommendation, the Hoover Commission urged that the Defense Department speedily complete the federal supply catalog program. The government has struggled for 40 years with the development of a single catalog with a uniform supply language and number system that would eliminate duplicate terms and reduce the number of items to be bought.

The Pentagon was given the job of preparing the catalog in 1953. It will be completed by the end of this year, but the military services and other agencies won't fully replace their separate catalogs with it until the end of 1958.

When conversion to the new catalog is completed, each type of parachute, rubber heel, nut and bolt will have its own number, rather than being identified by different numbers in, say, the Army and Air Force. Supposedly, duplicate inventories of the same item could be eliminated, and ready identification could widen the intragovernment use and further disposal of surplus. The number of supply items will be reduced by about one million. *(Continued on page 74)*

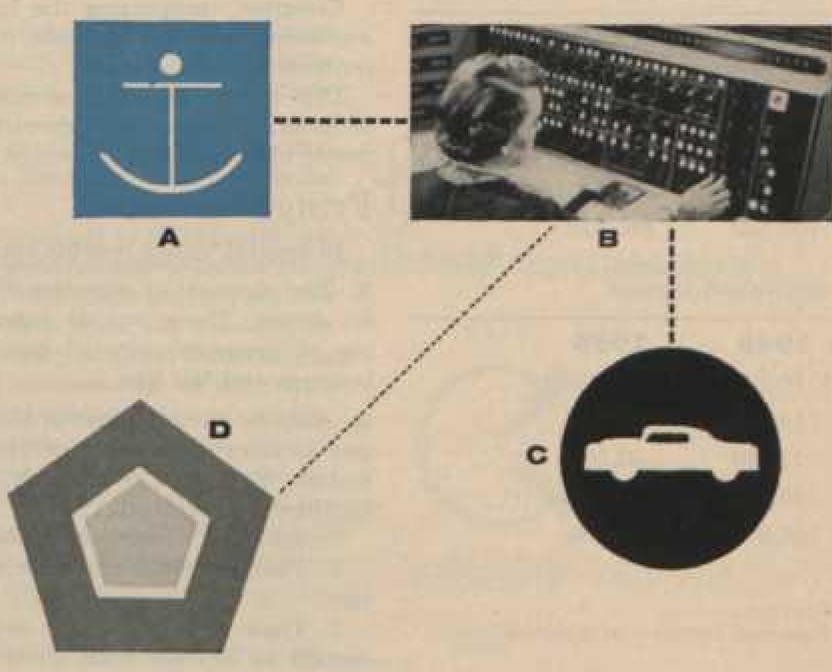
Electronic brain could force military to absorb goods

A Navy wants to buy new cars so it sends in requisition

B Procurement officers check electronic machine to see if another agency has cars

C Machine discovers Army has good excess autos for sale but Navy has money for new, doesn't want Army's autos

D If Navy refuses Army autos machine flags Pentagon and Navy must justify refusal



New **pay ideas** help hold executives

Surveys show the measures to increase take-home pay take four major forms

HOW TAX HAS CUT SALARIES

Income taxes and today's devalued dollar have slashed the real worth of executive salaries. Here's what a married executive must earn in 1956 to equal his earnings in 1939 and 1949. (Outside income, tax deductions, credits and exemptions are ignored.)

Equivalent Income

1939	1956
$ 10,000	$ 25,000
15,000	42,000
25,000	88,000
50,000	300,000
100,000	880,000

Equivalent Income

1949	1956
$ 10,000	$ 12,000
15,000	18,000
25,000	32,000
50,000	69,000
100,000	170,000

Source: Research Institute of America, Inc.

BUSINESS is finding answers to the question:

How can management get the pay it deserves?

Because of a tax structure built up for war and never adequately reduced, virtually the top third of today's executives are in a tax bracket where salary increases are practically meaningless. As a result companies have been hard hit by the loss of managers who leave to launch their own businesses hoping to build capital through equity ownership.

So, to get and hold top-flight men, business has evolved a whole new structure of compensation practices to increase the amount of money an executive can enjoy after taxes. These take four main forms:

- ▶ Fringe benefits
- ▶ Deferred compensation
- ▶ Stock options
- ▶ Pensions and profit-sharing plans

In adopting such plans companies are exercising the right—recognized by tax authorities—of a business or individual to keep his taxes as low as possible within the limits provided by law. Approval has been given by the courts, particularly by Judge Learned Hand who said in a recent decision:

"Anyone can arrange his affairs so that his taxes will be as low as possible."

Congress, recognizing the tax burden, has repeatedly enacted special legislation designed to make it easier for business to provide special incentives in certain cases.

This report, based on a nationwide survey by the Research Institute of America, covers latest developments in the field, many of them advancements made possible by recent tax changes and decisions.

Fringe benefits

In general, fringe benefits aim at one or the other of two main objectives:

1. *The payment of expenses incurred by the executive while carrying out his duties.* These include expense accounts for travel and entertainment, use of company-operated cars and planes, club memberships to obtain business and the like.

2. *Help for the executive in meeting personal expenses by providing goods and services at low cost or providing them free.* Such executive fringes include life insurance coverage, medical care payments, use of recreational facilities and so forth.

Fringe benefits have a double advantage:

1. They boost the executive's real income where they are tax-exempt to him.

2. Their net cost to the employer can be less than a raise in salary enough to buy the same things.

For example, the ABC Tool Company pays its vice president a straight salary of $25,000 a year. The company also provides:

Combination health and accident policy	$ 300
Free meals in the company's executive dining room	250
Free country club membership	400
Annual medical check-up	50
$25,000 of term insurance under a group policy	200
	$1,200

The ABC Tool Company is in a 52 per cent corporate income tax bracket; therefore, its after-tax cost of providing these benefits is $576 ($1,200 less 52 per cent). But, suppose that, instead of these benefits, ABC gives its vice president a straight salary boost which would enable him to buy these things directly at the same cost. Since the president is in a 43 per cent tax bracket, he must get $2,100 to meet the cost of $1,200. Thus, the raise would cost the company more than $1,000 after taxes.

Most companies today provide some form of fringe benefits. Adaptations in the field, however, have led to some relatively new tax practices.

First, a few of the more glamorous. More and more companies are finding that the best way they can pay their executives is to help them go places and have fun. With the growing world range of business, trips become longer and more diverting. Now, instead of a run to Florida or California, it may be a voyage to Europe, a flight to South America or even a safari to Africa—and his wife goes along.

Rest and recreation: The general practice is to send the executive on a business trip during which he also has a chance to enjoy himself. Annual conventions and company meetings are held in summer or winter resorts with facilities for rest and recreation. The company pays for the executive's travel, hotel room, meals and business expenses. As long as there are valid reasons for the meetings, say the Institute's tax experts, there should be no tax problems either with the company's deductions or the executive's exemption.

Such practices are widespread. Less generally realized is the fact that the business benefits of advertising can convert a pleasure trip into a business activity which permits the company to deduct the cost without the executive being taxed. Here's an unusual case reported by the Institute:

The president of a Pennsylvania dairy corporation and his wife, a director, were both experienced hunters and, to advertise their dairy, went on a big-game hunting expedition to Africa with their expenses paid by the dairy. A great deal of publicity attended both departure and return: news stories, letters and pictures were published in local papers; motion pictures were shown to customers; a pamphlet was distributed picturing safari activities. The result: Trip expenses of $17,000 were held to be deductible as an ordinary and necessary business expense. Said the judge who reviewed the case:

"The cost of a big-game hunt in Africa does not sound like an ordinary and necessary expense of a dairy business in Pennsylvania, but the evidence in this case shows that it was, and was so intended. It provided extremely good advertising at relatively low cost.

"The enjoyment of one's work," ruled the court, "does not make that work a mere personal hobby, nor the cost of a hunting trip income to the hunter."

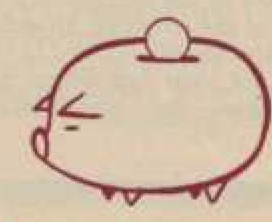
Although it is recognized that vacations are essential to good health and efficiency, their cost is ordinarily treated as a personal rather than a business expense. However, the survey shows that a constantly growing number of executives are combining business with vacation trips. For example, an executive of a Chicago concern may find it necessary to spend three days in San Francisco straightening out a production problem and, on the return trip, spend a week vacationing in the Pacific Northwest at company expense.

Here the cost would have to be divided between the business element (direct round-trip to San Francisco, plus three-day stay there) and the personal element (any excess), the tax specialists explain. The cost of the business element is deductible by the company and not taxable to the executive. The executive would have to report the cost of the personal element as income. It could not be deducted by the company unless it was considered additional compensation.

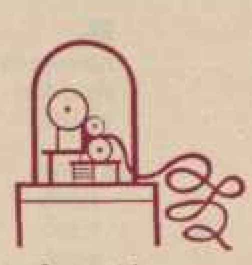
Another way of providing executives with rest and recreation is to make

HOW TAKE-HOME IS IMPROVED

Fringe benefits



Deferred compensation



Stock options

Pensions

Profit-sharing plans

available to them facilities primarily used for entertaining customers and business associates as well as for company meetings—country clubs, hunting lodges, camps, cottages—even yachts. Some such practices have been abused in the past and the tax experts warn that the Treasury may crack down on cases that are out of line. Each case is considered on its individual merits. But, generally speaking, to the extent that the company can show a business benefit from the expenditure, the deduction can be sustained.

Innumerable companies pay for club or association memberships for their executives. Where this is done for employes in general, deductions have usually been allowed on the theory that such costs are a legitimate business expense incurred to create better employe relations. There seems to be no tendency to include the cost of the membership in the income of the employe. How far this can be specifically applied to executives is not clear but where the executive uses the membership strictly for business purposes there is no question that it is deductible by the company and not taxed to him.

Rest and recreation also accrue from some medical care plans.

The Chesapeake and Ohio Railroad offers annual medical examinations at a clinic in the Greenbrier Hotel, a company-owned resort at White Sulphur Springs, W. Va. This takes at least a three-day visit at company expense with time available for golf, tennis and other recreation. More than 95 per cent of the company's executives take advantage of the offer.

While the new tax rules do not specifically say so, according to the Institute's tax department, there is little doubt that payments for periodic medical check-ups qualify as tax-exempt medical care for the executive. (And in most cases they are deductible by the company.)

Health and accident plans The major financial interest which the average company builds up in a veteran executive's health has been increasingly recognized in the past few years. For example, the vice president of a nationally known corporation has estimated that one of his executives, who started at 22 earning $3,600 a year and has now advanced to $40,000 in a top management position at 47, is worth at least $425,000 to his company. To protect such investments, many concerns have set up extensive programs to help insure good health of their executives.

Until recently, however, many companies have carefully kept from assuming the full cost of executive health and accident benefits. One reason was the risk that the company's payments would be taxable to the executive as income except where group health contracts were used.

Under the new rules, these costs can generally be tax-free to the executive. Today, all that's required is that they be paid under a health or accident plan. As a result, more companies are providing health and accident plans as executive fringes, and concerns that shied away from them in the past are taking a new look at the possibilities.

FRINGE BENEFIT METHOD SAVES MONEY

A corporation spends less if it buys benefits for an executive than if it pays him extra to buy the benefits himself.

A. Executive's Income Level	B. Amount to Be Paid for Benefits	C. Added Salary Needed to Provide Sum in Col. B*	D. After-Tax Cost of Salary Increase Method	E. After-Tax Cost of Benefit Method	F. Company Saves Via Benefits (Col. D—Col. E)
	$ 500	$ 676	$ 324	$ 240	$ 84
$ 10,000	1,000	1,351	648	480	168
	1,500	2,027	973	720	253
	2,000	2,702	1,297	960	337
	500	714	343	240	103
15,000	1,000	1,428	685	480	205
	1,500	2,186	1,049	720	329
	2,000	2,944	1,413	960	453
	500	877	421	240	181
25,000	1,000	1,754	842	480	362
	1,500	2,631	1,263	720	543
	2,000	3,508	1,684	960	724
	500	980	470	240	230
50,000	1,000	1,960	941	480	461
	1,500	2,940	1,411	720	691
	2,000	3,920	1,882	960	922
	500	1,429	686	240	446
75,000	1,000	2,858	1,372	480	892
	1,500	4,471	2,146	720	1,426
	2,000	6,084	2,920	960	1,960
	500	2,000	960	240	720
100,000	1,000	4,000	1,920	480	1,540
	1,500	6,000	2,880	720	2,160
	2,000	8,000	3,840	960	2,880

**Does not include tax deductions by executive for benefits cost to him*

Source: Research Institute of America, Inc.

For example, it is now possible for a company to establish a health and accident plan under which the executive is completely relieved of medical care payments. The company payment of insurance premiums or medical care benefits is fully tax-exempt to the executive. Under most plans, he is also reimbursed for his regular salary. For tax purposes, he is also exempt on the first $100 of each week's sick pay.

Companies are no longer limited to group policies or contracts. Today a company can provide an individual policy tailored to fit an executive's particular needs. Besides policies providing regular hospitalization, medical and surgical care, a company can use so-called major medical expense contracts and other special policies which protect the executive against disastrous medical costs.

Life insurance Life insurance is one of the commonest executive fringes. Usually, the premiums are paid entirely by the company, though sometimes the employe pays premiums on all insurance above a certain amount. In any event, the policy proceeds are payable directly to the executive's estate or to the beneficiaries he selects. From the tax standpoint, group insurance may be best, since premiums paid by the company are immediately deductible and are not taxed to the executive.

Group term coverage is widely used and is well-known to most companies but a new and growing development is what is known as "split-dollar" insurance. Individual executive coverage at low cost is now available through this split-dollar insurance, the Institute's tax department advises. A recently announced special rule on the treatment of split-dollar insurance is making this an increasingly popular way to get around the tax disadvantage of the individual policy where the employer pays the premiums. The trouble there is that, whether the coverage is term or not, the premiums are taxable to the executive. Split-dollar insurance provides an answer. As a practical matter, split-dollar insurance adds up to an interest-free loan to the executive, permitting him to extend his insurance coverage.

In the first place, the company takes out insurance on the life of a key employe. The premiums, as well as the proceeds of the policy, are, in effect, split in two parts. The company pays whatever part of each year's premiums is equal to the increase in the policy's cash surrender value during that year. The corporation is the beneficiary up to the amount of the cash surrender value. Thus, it is merely laying out premium payments which it will eventually recover dollar for dollar. The premiums paid by the company are not taxable income to the executive.

The employe pays the premiums due, less any dividends and less the increase in cash surrender value. On his death, his beneficiaries will receive the face value of the insurance less the cash surrender value, which goes to the company. On the death of the employe, no part of the proceeds will be subject to income tax. The employer's share as well will be

(Continued on page 63)

DEFERRED RAISES SAVE ON TAX

Here are comparisons of an executive's after-tax income when he takes an annual increase of the stated amount during a 10-year period, with the amount he keeps if the increase is deferred and paid over a 10-year period after retirement. (The table assumes continuation of current tax rates, and that other income equals deductions and exemptions in the years before and after retirement.)

		Totals over 10-year period				
				Married executive keeps after taxes:		
Income level	Annual raise	Raise total	Gov't. takes	If paid currently	If raise deferred	Saves by deferment
$ 10,000	$ 1,000	$ 10,000	$ 2,600	$ 7,400	$ 8,000	$ 600
15,000	2,000	20,000	6,400	13,600	16,000	2,400
20,000	3,000	30,000	11,400	18,600	24,000	5,400
25,000	5,000	50,000	22,300	27,700	39,800	12,100
50,000	10,000	100,000	61,400	38,600	78,000	39,400
100,000	15,000	150,000	112,500	37,500	113,800	76,300

Source: Research Institute of America, Inc.

IKE'S ARCHITECT OF OUR ECONOMIC FUTURE

Gabriel Hauge's look ahead guides government decisions. Here are some of the things he sees

THE DAY President Eisenhower announced his intention to run again, a square-faced man in an office just across from the White House resolutely inserted an "Ike" insignia in the lapel of his conservative business suit.

The man was Gabriel Hauge, the President's right-hand aide on matters economic and a key architect of administration economic policy and philosophy. The private little ceremony was his typically restrained but determined way of announcing his enlistment for the duration of the campaign.

Few Americans would recognize Dr. Hauge (pronounced How-ghee) if they met him on the street. Given a test of "Who's Who Around the White House," few would be able to match up his name with his title—Administrative Assistant to the President for Economic Affairs. But practically everyone has heard his words and been vitally affected by his views.

An economist turned magazine editor, he not only coined the phrase "dynamic conservatism" for the President, but he has had a major voice in deciding exactly what it means in application. He has been a key Eisenhower speechwriter—"wordsmith," to use the President's own term—since early 1952, and has played a basic role in shaping administration policy on such all-important issues as taxes, credit, tariffs, agriculture and public works.

Dr. Hauge has defined his goal—and by inference, the Administration's—as progress toward a welfare society without the regimentation of a welfare state. He has deep faith in an economic system working with a minimum of government controls and interference, but at the same time feels the government must recognize that deep human problems can sometimes arise in a dynamic society and therefore must adopt programs to make acceptable the occasional instability of such a society. Perhaps one of his outstanding qualities and main values to the Administration is an ability to think in terms of basic economics and then temper his decisions with the application of some practical politics.

While nothing has been announced yet as to his role in this year's political campaign, it is a virtual certainty that he will be near the President as he has been in the past, providing both economic advice and his own unique but invaluable skill in translating complex economic ideas into colorful, easily understood phrases.

Dr. Hauge, at 42, is one of the youngest men on the President's immediate team, but he has broad duties and responsibilities. Treasury Secretary Humphrey, no easy man to please, rates him "one of the ablest advisers in the Administration"; other top Eisenhower officials make a unanimously similar appraisal.

Broadly speaking, Dr. Hauge's job is to do whatever chores and run whatever errands the President requires in the economic field. He helps the President prepare the State of the Union and other major messages to Congress, and assists in writing most important speeches. He is the White House link with other government agencies and with Congress on economic problems. He attends Cabinet meetings and sits in on many of the President's weekly sessions with Republican legislative leaders.

To his huge, high-ceilinged office in the rococo Executive Office Building—the room he refers to as his "basketball court"—comes a steady stream of callers with economic problems. Other White House and agency officials refer to him any Canadian businessmen worried about U. S. tariffs, New England textile manufacturers seeking government help, Midwest farm groups worried about some aspect of the new farm law.

He works with State Department officials on foreign economic problems, sits in on the top-level Foreign Economic Policy Board, and takes frequent trips overseas as U. S. representative on various international economic agencies. Complicated economic matters requiring presidential decision go first to him to be capsuled into one or two simple pages for presentation to the President; for example, he reviews for the President all Tariff Commission recommendations. He has been particularly active on farm problems—partly because of the importance of the farm situation in the general economic picture. Reportedly the President's veto message on the Democrat's high-support farm bill was in large part a Hauge endeavor, as was the President's TV address to the nation on the same subject.

Reporters are made aware of Dr. Hauge's key role whenever some tough question on economic policy is thrown at White House Press Secretary James Hagerty in the course of his daily press conferences. Mr. Hagerty usually picks up the phone and asks for "Dr. Hauge, please." When Dr. Hauge answers, Mr. Hagerty says, "Gabe, the boys are asking me so and so." Gabe—as everyone *(Continued on page 88)*

▶ *Coiner of the phrase "dynamic conservatism," Dr. Hauge displays Picasso rooster as well as pictures of the President*

PHOTOS BY FRED J. MAROON

Dr. Robert H. Felix, Director National Institute of Mental Health, tells

HOW TO LIVE WITH JOB PRESSURE

THE BUSINESSMAN is one of the nation's big mental health problems.

Of all the people in our tension-ridden modern society, none is subjected to more relentless stress than he. In the competitive environment in which he lives and works nervous strain is the number one occupational hazard.

Each year thousands of able, ambitious, hard-working men are cut down in the prime of their careers by psychological and physiological ailments. Aside from the human tragedy which this entails for them and their families, the cost to their business firms—in terms of lost executive talent—is incalculable.

The businessman can reduce this casualty toll.

The place to start is with himself.

"You can't escape the ulcer factory environment in which all modern businessmen live," says Dr. Robert H. Felix, Director of the National Institute of Mental Health, "but there are some simple, common-sense ways in which you can keep from cracking up under its strain and can preserve the kind of vigorous mental health which is so essential to your own, and your firm's success. I won't promise that these suggestions will lead to utter tranquility. Any man who carries heavy responsibilities and wrestles daily with complex decisions is bound to do some worrying. He would be stupid or indifferent if he didn't. I'm not offering a magic formula for unruffled peace of mind but a few thoughts on how you can live with the inevitable stresses of your everyday life."

Dr. Felix, himself a busy executive, seems to be the ideal person to consult on this matter for several reasons. He has headed the National Institute of Mental Health, the federal government's great psychiatric research agency, since it was established at Bethesda, Md., 10 years ago. He knows from personal experience what the problems of management are because he runs an organization with 370 employes and an annual budget of $35 million.

A friendly, hustling, eminently practical man who believes passionately in the product—mental health—that he is selling, Dr. Felix would feel as much at home at a business convention as at the meetings of the august American Psychiatric Association.

He rarely lapses into professional jargon and always tries to give direct answers—a trait that has endeared him to congressmen (who perennially show their regard for him and his Institute by increasing its budget).

A final reason why Dr. Felix is worth listening to is that he has obviously practiced what he preaches, and has achieved, in his own life, the balance and fullness which he recommends for others. In private life, he is the head of a notably happy and close-knit family, an expert woodworker, a tireless contributor to community service projects, and a dedicated member of St. John's Episcopal Church in Bethesda, which he serves as an usher, Sunday school teacher, and member of the Vestry.

To cope with nervous tension, Dr. Felix says, you need to understand how it can cut your efficiency and, eventually, cripple or kill you.

"There are three ways in which a businessman may react unhealthily to stress," he says. "He may begin to suffer from what we doctors call 'disorders of thought.' Under this category comes such familiar symptoms as indecision, anxiety, the kind of chronic worrying that leads to insomnia. It also includes the more serious neuroses, delusions and hallucinations.

"There also are disorders of behavior that are direct consequences of undischarged tension. Flying into rages, taking out spite on family or subordinates, drinking yourself into alcoholism, for example.

"Finally, there are disorders of bodily function—the so-called psychosomatic ailments. Everybody thinks of ulcers in this connection but there are many other organic illnesses which may be caused or greatly aggravated by stress. Hypertension, coronary artery disease, colitis, arthritis—these are a few of the common ones."

Dr. Felix paused, lighted a cigaret, and swung his chair around so that he could look out the window over the campus-like lawn of the huge Clinical Center, on the outskirts of Washington, which houses his own agency and six other components of the National Institutes of Health.

"I mentioned all those types of ailments," he continued, "because I want to get across the fact that mental health is not just a matter of thinking positive thoughts and gulping a few pills to quiet your nerves. To achieve it, you may have to do some fundamental reorientation of your attitudes, your goals and your habits.

"Basically, it is a matter of ordering your whole life so that, insofar as possible, you make your work a pleasure instead of a burden. Keep your business career in perspective as an important, but certainly not the whole, of your existence."

Making your work a pleasure sounds fine, but how do you go about it? Isn't it a fact that almost every job involves tiresome, routine drudgery?

"True enough. But you may be surprised how much of your daily work can be lifted out of that category if you approach it properly. You might, for example, try to relate your job to a goal or purpose that is larger than your own narrow self-interest. In other words, don't let your paycheck, or the next promotion, be your only motives for doing a good job. This may sound idealistic, but it is a well-known fact that a sense of being useful, of contributing something to the over-all welfare of mankind, is a vital factor in mental health. There is a lot of sound psychology in the old Rotary motto: 'He profits most who serves best.' And there is no legitimate business activity which cannot be used as a channel of service to society.

"There's another way in which you can find more enjoyment in your job. Look for a challenge—even in the most routine and uninspiring sort of task. While I was going to medical school, I worked part-time as a clerk in a grocery store. At first it bored me stiff. Then I learned to make a sort of game out of seeing how much of certain types of merchandise I could sell. When we stocked a new brand of canned peas, for example, I would tell every housewife who came in what wonderful peas they were, and how much they would dress up a meal. We sold a hell of a lot of peas, the boss was delighted, and I began to enjoy my job because I felt I was a salesman, and not just a clerk."

What would you say to the man who has tried all of that, but still finds that his work is a tedious, monotonous ordeal?

"I would suspect that he is in the wrong kind of job. Each of us is suited for certain kinds of work, and unsuited for others. This is getting over into the field of vocational guidance, which is another subject. But as a general rule, I'd say that no man can really enjoy—or achieve much success in—a type of work that is completely alien to his interests and abilities. If you really hate the job you have, you probably aren't suited for it, and you ought to start looking for another one (Continued on page 85)

Beyond your depth?

Blowing your stack?

Decisions got you?

Business in politics

3 ways to get results

IN THIS FALL'S election the business firm, the corporate form of carrying on private competitive enterprise, is the primary target of the politicians of the left.

To a large degree, the business firm itself is legally immobilized and defenseless to meet these attacks. Specifically, it cannot spend money to support or defeat a party or a candidate friendly or hostile to private enterprise.

The same restrictions apply to business organizations. Chambers of commerce and trade associations are prohibited from spending their members' dues on behalf of or in opposition to a political party or candidate.

The political defense of business must, therefore, come from individuals.

If all the people who receive wages, salaries, fees, dividends or pensions from the business system find common political grounds in opposing further growth of bureaucracy, they can create a healthful political climate for private enterprise.

But few of those whose positions, earnings and prospects are jeopardized take as a personal matter the political actions that bring business further under the domination of government.

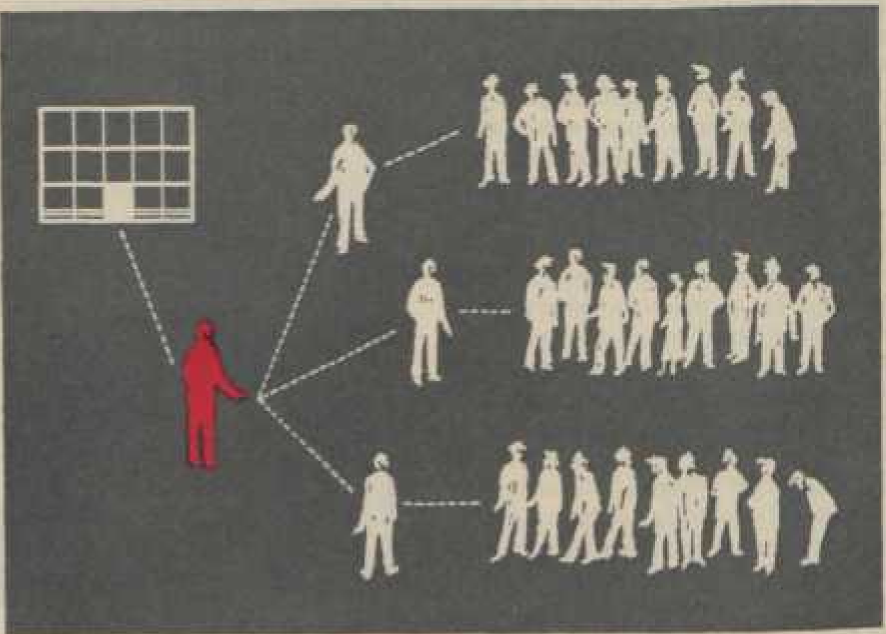
This means that, if political encroachment is to stop, business leaders must head the forces that stop it.

To those who have never concerned themselves with politics this may seem to be a difficult assignment. It isn't. It requires only three simple but important steps:

- ▶ Making sure that those who benefit from business cast their votes.
- ▶ Giving financial help to candidates who support free enterprise.
- ▶ Taking part in political affairs.

Experience has shown some effective ways to do these things.

1 Registration and voting are stimulated in 10 states by letter series going from state headquarters to a key executive, on to company associates, then to wider lists



Getting out the vote

Businessmen can be sure, first of all, as to their own qualifications to vote. Next, they can urge each family member to qualify and to vote this fall. They can cooperate with others, either within one of the parties, or sometimes within the community business organization. The local chamber of commerce can, and usually does, act to stimulate registrations on a nonpartisan basis. Other business associations act similarly.

Fortunately, more and more business effort is going into special registration drives, organized as such. There are some pitfalls in these. Indiscriminate stimulation of registration produces, quite naturally, indiscriminate voting results.

Trained party workers can advise as to the type of areas, or groups, in which work is likely to produce votes favorable to maintaining a healthful climate for business enterprise. A phrase tells the story. Concentrate effort in any "historically favorable areas."

For the best advice, turn to the best trained man (or men) in your community. The odds are that he is the city or county chairman of one of your political parties. The odds, further, are that he is himself a businessman because only in a comparatively few cities is the political machinery in the hands of professionals.

Advised directly by home-town political leadership, the business leaders in one community went on a soul-searching expedition. It had some surprising results.

By arrangement with the county Board of Elections, they compiled test lists for checking as to qualified registrants.

The results were startling—at least to the businessmen if not to the election officials. In many business establishments less than 50 per cent of individuals who could qualify were registered. The final over-all count showed that four out of ten people in business were not qualified to exercise their citizenship rights by voting.

The development of such a check-up list within business firms is one practical answer as to what business people can do about getting like-minded persons to go to the polls and to vote.

The president of one nationally known business concern asked the county Board of Elections to check on the registration or nonregistration of all salaried personnel in the

corporation. He had the list broken down by departments and divisions.

Then he instructed the men who reported directly to him to call in, in turn, all persons reporting directly to them. Each was asked to request those persons who were found to be nonregistered to consider registration with the party of their choice; also to consider requesting a nonregistered wife or family member of voting age to become registered. The appeal was put upon a citizenship basis, with no compulsions or suggestions as to party choice or as to discipline in the event of an adverse decision. This one effort produced 1,100 new registrations. The company's basic employment at the time was about 15,000.

But the businessman's influence is not limited to his own plant.

He has power to reach and influence many people. His judgment is respected.

One Ohio industrial executive—a manufacturer of farm and garden tools—is preparing a personal letter, urging increased business political activity, to a list of 2,000 individuals—the alumni of his college preparatory school and university.

Another president, head of a steel company, is writing personal letters to each of the several thousands stockholders of his company.

An excellent example of corporate action is the letter sent by Henry Ford II to employes of the Ford Motor Company.

Urging the acceptance of individual responsibility for self-government, going beyond that of "merely informing ourselves," Mr. Ford's letter concludes:

"The Republican and Democratic Parties alike need help in presenting their views to the public at large. They must have willing and interested workers who can devote time and effort to the job of encouraging millions of Americans to exercise their voting franchise.

"Both parties must raise money to cover the high costs of campaigning on radio, television and in various forms of advertising.

"I urge all employes of Ford Motor Co. to serve themselves and their nation in the next few months by devoting at least a portion of their available time to the interests of the party of their choice. I also urge you to contribute money to your party in whatever amount your means will permit. The actual size of your contribution is far less important than your willingness to make known where you stand, politically, on important questions of our times.

"The two great parties in our political system are the bulwarks of 'one nation, indivisible, with liberty and justice for all.' They deserve support from all of us—each according to his ability to contribute that support and each in accordance with whatever his political convictions may be."

2 How much to give depends on many circumstances. Party money raisers know what the average executive donates (see text) but here are two suggestions

CONGRESSMAN *Vorys of Ohio says frequent Washington suggestion for political donations is five per cent of the income tax paid on prior year's income*

INDUSTRIAL *leader expects younger executives to give 3/4 of one per cent of salary, middle bracket one per cent, top executives up to 1 1/4 per cent of salary*

In at least 10 states this year, industrial and business managements are being invited to take part in state-wide stimulation of registration and voting.

In each the core of the plan is simple—and effective. In a central state headquarters, a series of letters to management is prepared, dealing with the importance of the issues faced in the November election.

The key or chief executive officer of the cooperating company is asked to adapt each letter of the series, over his personal signature, and mail it to a selected list of his company associates. It is suggested that these nonpartisan but stimulative letters, where possible, be sent to the home, and on a "Mr. and Mrs." basis.

Sponsors believe that the key to success is evidence shown by the top responsible official of a concern as to what will happen at the polls. They believe such men often underestimate the strength of their own leadership powers.

This plan, started in 1950, has been used in many states, and each general election year sees its use broadening.

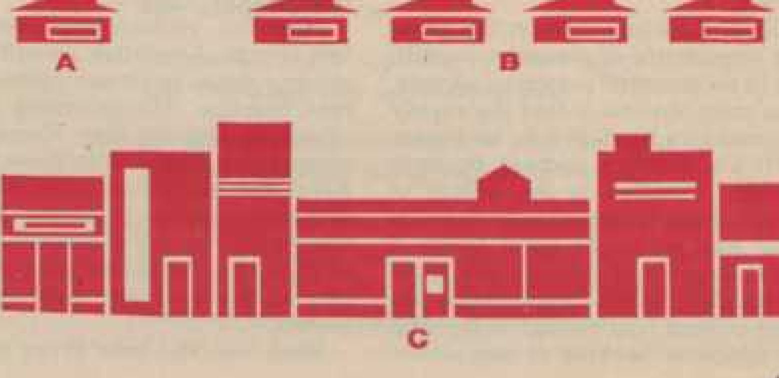
Among other things, it proves that businessmen can be inventive, too, under new conditions, and that not all of the specialized vote registration work being done is in the hands of the labor unions.

How much to give

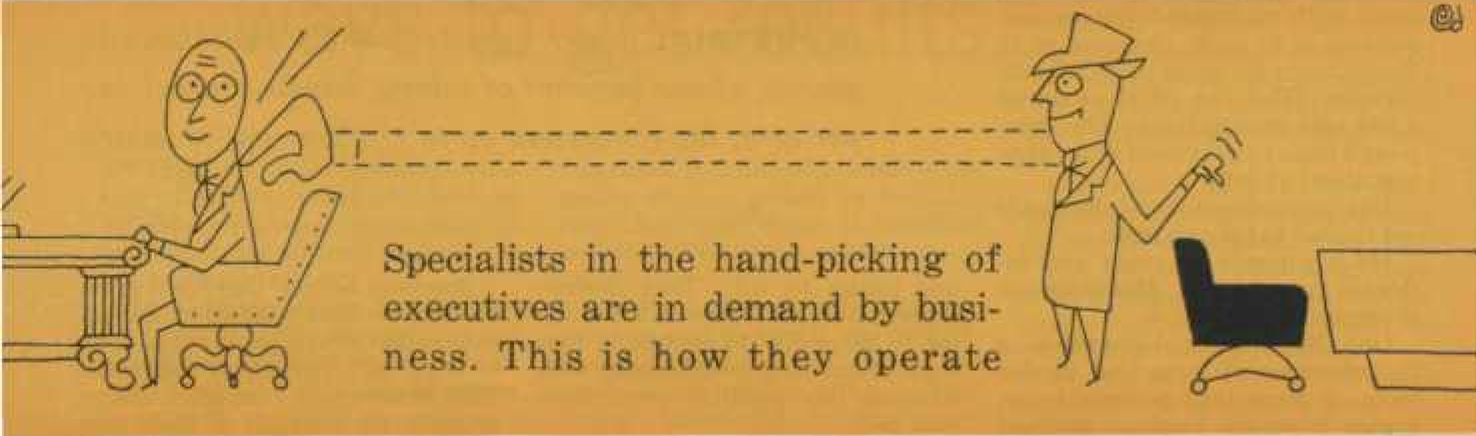
Another avenue of political participation is to make a financial contribution and work with other men of business in the community on money-raising for political activity.

(Continued on page 93)

3 A businessman or employe taking part in politics should start at home. The orbit of next greatest personal influence is his precinct; next, his community



HERE'S HOW PROFESSIONALS FIND MANAGERS



Specialists in the hand-picking of executives are in demand by business. This is how they operate

AN INCREASING number of firms is using professional recruiting organizations to help meet executive manpower needs.

The recruiters—or searchers for executives—are specialists. Client companies retain them to hand-pick candidates for top-echelon positions. Estimates are that 50 of the 100 largest U. S. industrial corporations have used these firms in the past few years. Requests for the recruiters' services come, too, from middle-sized and small concerns.

Ten years ago only three or four organizations offered this service. Today at least 10 companies do the work exclusively, and a growing number of employment agencies and management consulting firms are offering executive search as a sideline.

Most of the search firms specialize in finding top management men—men in the $12,000-plus category. Some recruit both top and middle management personnel, a few even beat the bushes for junior executive talent.

Several factors explain the growing importance of executive recruiting in the national personnel picture. The most obvious is that the supply of managers has failed to keep pace with the nation's postwar business growth. Another is the failure of many firms to train executives in their own ranks. A third factor is the emergence of entirely new types of business which simply have not been around long enough to develop an adequate backlog of executives.

Demand for executives, according to *Executrend*, monthly barometer of top level positions available in key areas, was 33 per cent higher in the first half of this year than in the last six months of 1955. Engineering heads the list of job areas where demand is most acute. Demand also is high in the marketing field, with manufacturing, finance, personnel and general administration following in that order.

Corporate reaction to the executive recruiters has been mixed. Many companies have generous praise for them. Says one business leader: "A recruiting firm helped us find a vice president for sales that we had been unable to scare up in months of costly, dogged interviewing, advertising and scratching around."

Companies which have seen members of their executive teams lured away by the recruiters do not take so kindly to the situation, as a rule.

They feel that the recruiters do nothing to increase the supply of executives, but simply redistribute what supply there is.

However, protests are becoming less sharp. Executive recruiting is gaining status as an acceptable business practice. It's becoming recognized as just another element in competition. Some of the firms which have lost executives even show a spirit approaching gratitude. Losing top people has called their attention to their own failure to train capable men to take over jobs suddenly left vacant.

Such was the case in an assignment that was handled by Hoff, Canny, Bowen & Associates, Inc., a New York firm specializing in executive search.

"The vice president of one company raised hell with us because we had induced one of his men to leave," says J. Francis Canny, a partner in the firm. "His complaint was that he had no one to replace the man who had gone. We pointed out that this indicated a weakness in his own programming—and asked what he would have done if the man had died instead of leaving the job voluntarily. Then he calmed down and wound up saying that he was going to talk to his people about strengthening the executive depth of the firm."

The recruiters argue that the departure of an executive from a company often gives other men who have dallied too long in jobs beneath their full capacity a chance to move up and show what they can do . . . and that, in this sense, they *are* increasing the supply of executives.

If your firm set out to find an executive recruiting organization it would discover that they aren't easy to locate. That's because the recruiters operate quietly, almost in secrecy. They don't advertise, but seek to build clientele through word of mouth advertising by satisfied customers and through referrals from management consulting organizations, public accountants and other contacts.

"We expose ourselves discreetly," says Gardner W. Heidrick, partner

in the Chicago recruiting firm of Heidrick & Struggles.

Most of the recruiting firms are in three cities—New York, Chicago, and Los Angeles. They will take on assignments almost anywhere, however, and, with the trend toward decentralization of industry, new companies are expected to spring up soon in other metropolitan centers.

Executive recruiting, by its nature, is confidential, delicate work. A recruiter hired to find an executive for a particular job automatically puts the client company on its hands-off list. This means it will never approach executives of that firm with proposals of employment somewhere else. Should an executive of a client firm want to move, the recruiter will tackle the job only if he has the consent of the client company.

"Finding clients isn't our biggest problem anyway," says Mr. Canny. "The biggest problem is finding executives."

The recruiter's first move in taking on an assignment is to study the client's own organization, problems and needs. This is basic to what recruiters describe as "the search plan format."

A representative of the recruiting firm—usually a man well grounded in personnel work—spends a day or two at the client's office or plant, talking to members of management, supervisory employes and, in some instances, to rank-and-file workers. If the open job results from retirement, the recruiter spends some time with the outgoing jobholder, learning what the job involves, what qualities it demands, what its pressures are. Only through such research can the recruiter evolve an intelligent concept of the position to be filled and the type of man needed to fill it.

To forestall arousing suspicions among staff personnel, most recruiters ask the top officers of the client firm to tell their people why they have been called in.

"You always face the possibility of resentment," says Mr. Heidrick. "If a second vice president knows the board of directors has asked a recruiting firm to find the company a new first vice president—to succeed a man who, let us say, is retiring—it is understandable that he might wonder why he isn't being moved up to fill the slot. Varying degrees of this resentment may be echoed and re-echoed up and down the line."

What can a client company do to ward off such morale crises? Executive searchers say the direct approach is best. Go first to the man who is being bypassed, then to the other members of the staff and explain the reasons for the decision to shop on the outside.

"The second vice president still may resent not being moved up," admits Mr. Heidrick. "But at least he'll know that nothing is going on behind his back and, if the company has sound reasons for looking on the outside, he will eventually accept them and live with them."

Recruiters often are asked why companies use them to find executives, rather than utilizing their own personnel departments. The truth is, they say, that few companies give their own personnel office the power of executive search.

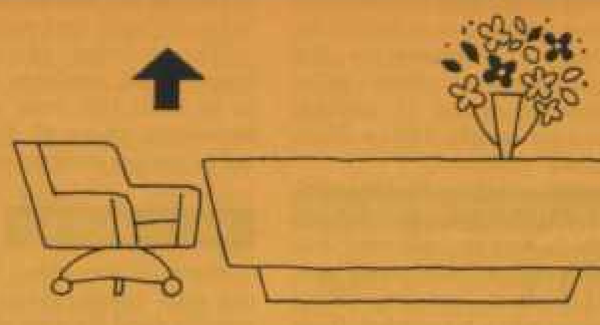
Once the recruiting firm is familiar with the client's needs, the business of finding the job candidate begins in earnest. Some of the larger searching organizations have elaborate files on executives—who they are, where they are working, what their major talents are, and so on. If the files fail to produce promising leads, the recruiter starts making inquiries in the trade area where a job prospect is being sought. In most instances the client instructs him not to look in directly competing firms. If the search is for a top man in a big organization, the search is simplified because big men stick out.

When the recruiter finds a likely prospect he makes further inquiries to determine the man's qualities and abilities. Friends are contacted, and so are officials of schools which the prospect has attended, and business associates outside the prospect's firm.

If this check supports the recruiter's belief that he has found his man, he then contacts the prospect—usually in a telephone call in which he introduces himself, explains that he is representing client company so-and-so, and describes the position which is open.

It's a rare executive who won't listen. This affirms the recruiters' belief that everybody—including the

(Continued on page 95)



33% more top openings in first half of 1956 than last half of '55

IN a survey of the activities of executive recruiters, the National Industrial Conference Board sought an answer to this question: "Under what circumstances are companies likely to engage the services of executive recruiters?"

THE ANSWER:

1. Companies that are expanding rapidly.
2. Companies that are decentralizing and thus need new executive teams.
3. Companies that are getting into new product areas and thus need new executive teams.
4. Companies that have failed in their own search to find the right man for an important vacancy.
5. Companies that have decided that executive recruitment can best be done by specialists, thus relieving key officers of a firm of the time-consuming duties involved in searching for job candidates.

HOW'S BUSINESS? today's

An authoritative report by the staff of The Chamber of Commerce of the United States

AGRICULTURE

Participation in the 1956 Soil Bank Acreage Reserve Program is exceeding expectations. Because of late launching, the program probably will make little dent in this year's production except possibly of corn. Late launching of the program makes major reduction improbable.

Preliminary tabulations by the Department of Agriculture show participation of about 11 million acres calling for nearly $250 million in compliance payments.

This year's version of the program permits farmers to include acreage which was not planted due to adverse weather; destroyed due to natural causes, and on which planted crops were prevented from maturing. Most of the wheat and cotton land, and some of the corn, that went into the reserve is in states designated as drouth disaster areas.

This year's program included some emergency features without which few producers would have signed up. The 1957 program will be announced well in advance so all contracts may be closed before planting season. It is also expected to require more strict compliance with acreage allotment minimums and provide less flexibility after crops are planted.

CONSTRUCTION

The concern about over-building of homes is lessened by a recent Census Bureau survey of household formations. Whereas it has been assumed that household formations were about 600,000 a year, the survey indicates that the number of nonfarm households increases about 1 million a year, on the average.

Because Congress did not appropriate funds for the collection of adequate construction statistics, we have no satisfactory means for explaining the differences between figures for housing starts and household formations.

We do know from Census figures that the number of married couples not maintaining their own household declined by 700,000 between 1950 and 1956. We lack statistics on demolitions, conversions, changes in supply of vacant housing, and shifts between farm and nonfarm usage.

The number of new privately constructed nonfarm housing units to be built this year will likely fall somewhat short of the 1.2 million units earlier estimated.

DISTRIBUTION

Since disposable income levels are still rising, retail sales should remain good the rest of the year.

Consumer purchases of nondurable goods and expenditures for services have been strong elements in maintaining a high level of business activity this year. Last year demand for consumer durables was the main element of strength.

At the retail level, sales of nondurables in the first half of this year were up seven per cent from 1955. Total sales of durable goods were about even. Net result is a gain of four per cent in total retail sales.

For the rest of the year, question is whether, and to what extent, consumers will shift their purchases from nondurables to durables. Level of new housing starts will affect purchases of appliances and furniture. Changeover to new models could improve auto sales in the final quarter. Situation also depends upon extent to which durable goods market is saturated and whether consumers are willing to take on more installment purchases.

CREDIT & FINANCE

Activity on the stock market has reached an all-time high. This past month the Dow-Jones Industrial Average almost equaled its April, 1956, high of 521.05.

The Federal Reserve Board has reported its findings in the field of bank loans to business. The Board reported that 80 per cent of the loans made by small banks are extended to businesses with assets of less than $250,000. Only five per cent of these small bank loans are made to companies with assets of more than $1,000,000. Even though tight credit conditions have tended to make banks favor their best customers, most commercial banks continue to be small businesses. Nearly 85 per cent of our 13,700 commercial banks carry less than $10 million in deposits.

A similar survey conducted by the Board last March found that 80 per cent of the business loans by larger banks were for less than $100,000, averaging under $18,000.

Both the number and aggregate dollar amount of the small loans made this March were as large as in March a year ago.

FOREIGN TRADE

The proposed International Finance Corporation, (IFC) has become an actuality. It begins its corporate existence as an affiliate of the World Bank, with 31 countries, including the U.S., as members and a capital subscription of $78,366,000. This amount is expected to be raised to $100 million as more countries become members.

The corporation aims to stimulate the flow of domestic and international private investment into productive private enterprise by investing, along with private investors, in those enterprises which cannot obtain sufficient private capital on reasonable terms. Investments will be made by the IFC without government guarantee.

To become eligible for an IFC loan, a project must, among other criteria, show indications of developing into a sound business and producing good profits.

GOVERNMENT SPENDING

A $70 billion budget is just around the corner, if it isn't already here.

In 1956 fiscal, which ended June 30, the government spent $66.4 billion. Government fiscal managers

outlook


STEINHEIMER

derived much satisfaction from the fact that in 1956 revenues exceeded expenditures for the first time in five years.

Optimists, however, overlook the fact that this $66.4 billion was nearly $2 billion above 1955, and more than $4 billion above the original 1956 budget estimates.

All signs point to a further upward climb.

Defense spending, which was about $40.5 billion in 1956, is going to run higher in 1957. So will outgo for nondefense activities.

Economy pressure has been relaxed both in Congress and in the Administration. This shows up in the appropriations for 1957 which are about $7 billion ahead of last year.

Although some of this is for long lead-time procurement, it still lays the basis for considerable increase in spending.

Except for 1953, when Korean war costs were at their peak, government spending has stayed well below $70 billion every year since World War II. Those days are likely gone forever.

LABOR

"Hot cargo" secondary boycott contracts, under which a union forces an employer to agree not to do business with anyone the union may later term unfair, are heading for a showdown before the Interstate Commerce Commission in two hearings scheduled for this fall.

The long trail through the hearing procedures of the ICC is scheduled to begin in Oklahoma City and on the West Coast. A Texas truck line will offer evidence to support a complaint against 21 carriers who it contends refused to accept freight because the Texas carrier did not employ union drivers.

Although some lower courts have held such contracts to be against public policy, the National Labor Relations Board has merely held the contracts unenforceable.

On the West Coast several carriers are seeking to add "picketing" and "strikes" to a list of conditions which would excuse them from failure to pick up, haul, or deliver freight whenever there is a strike or a picket in front of a store, a factory, or transportation terminal.

NATURAL RESOURCES

A continuing problem for Congress is how to keep the domestic strategic minerals mining industry healthy in the face of importations of foreign minerals at prices below domestic mining costs. Since Korea this has been done by purchases for the military stockpile at above market prices. But with certain minerals the stockpile goals have been fulfilled.

Congress, on the advice of the Office of Defense Mobilization, passed S. 3928, which the President signed, extending purchases of tungsten, asbestos, fluorspar, columbium, and tantalum until Dec. 31, 1958.

The estimated cost of the program is $91,670,000 but Congress appropriated only $21 million. Additional funds will be sought early in the next Congress.

The minerals will be placed in the supplemental stockpile.

In the meantime, General Services Administration has announced the extension of the Defense Production Act purchase programs on manganese, mica and beryl, and the Department of the Interior will study the situation in regard to all strategic minerals to form the basis of recommendations for a long-range program.

TAXATION

The Committee on Ways and Means has just announced a major policy study of our tax system. It will be conducted during the fall and early winter to establish a background against which next year's tax legislative proposals can be gauged.

Recent blasts against the present income tax and against the present tax system with all its loopholes have generated a strong feeling of congressional unease. A number of members of Congress have expressed desire to revise the system and lessen the heavy penalty rates which have been imposed by past revenue acts. The Joint Committee on Internal Revenue began looking into the problem a year ago.

Assuming the cost of government will not be markedly decreased—and every indication is now for an immediate increase—revision of rates will require changes in the system or major redefinition of what constitutes taxable income. Some measure of each is quite probable.

TRANSPORTATION

The 1956 federal-aid highway program got underway when Secretary of Commerce Weeks released $3.7 billion to the states as a first installment on the 13-year, $50 billion federal-aid highway program.

This apportionment provides funds which will allow immediate purchase of rights of way. It also will give industry confidence to warrant stepping up production in road-building equipment and materials. The contractors, too, can feel safe in expanding and equipping to compete for highway contracts. It will help bring to the attention of educators the need for more engineers.

The $3.7 billion includes $2.7 billion for the Interstate System and nearly $1 billion for other federal-aid roads. Nearly half will go for urban streets.

The federal government will pay 90 per cent of the cost on the Interstate System and 50 per cent on the other federal systems.

Although some states will find difficulty in matching federal funds, in the main, for the first time, money is no longer a principal obstacle for the federal-aid systems. The challenge now is to provide the administration, technicians, construction surveys and plans, labor, materials, and equipment to do the job.

WORKER PINCH UPSETTING OVER-45 TABOO

New study answers: How do older workers perform? Do pensions cost more? How can barriers against oldsters be eliminated?

BUSINESS WILL have to hire more older workers in the next few years for a simple reason:

More older workers, and fewer younger ones, will be available to meet the increasing demand for manpower.

To solve the problem, government and businessmen are trying to lessen, and where possible remove, age as a barrier to hiring. They are getting answers to such questions as these:

▶ Do workers 45 and older perform as well as younger ones?

▶ Do pensions really cost more for older employes?

▶ What barriers in company employment policies or union contracts prevent hiring of older workers? Can they be eliminated?

Some of the answers can now be given. Others will be available soon.

The worker shortage will likely remain acute until after 1960 when most of the big World War II baby crop will begin looking for jobs. Until then, about 2 million more workers will be needed as the population and national economy continue their normal expansion. Most of them will have to be drawn from workers in the 45-64 age group because in 1960 some 2 million more of them will be available than there were last year. Only 400,000 more will be added to the group 25-44 years old.

This growing manpower pinch could build up into a real problem for your company, particularly if you have restrictions or prejudices against hiring older persons, if you have a high proportion of jobs only younger persons can fill efficiently, or if your pension plan makes hiring older workers more costly.

It makes the assault on hiring age barriers of both real and mythical varieties a matter of practical business need as well as social responsibility.

Businessmen and business and labor groups are cooperating with government with the view to solving the problem through education and voluntary means rather than through legislation, such as four states have already passed.

At the federal level:

▶ The Federal Council on Aging, set up by President Eisenhower last April with representatives of 13 government agencies, is coordinating activities and planning new policies and programs in various government departments for the benefit of older workers. The employment phase has been under study in the Department of Labor for years.

▶ The Labor Department, as part of an older-worker project begun by Secretary of Labor James P. Mitchell two years ago, is making and directing a six-point program of studies and demonstrations intended to disclose information which will help remove the age barrier in hiring.

These studies seek such information as work performance of older workers, the impact of private pension costs on hiring, employment policies and practices, labor contract provisions, the characteristics of unemployed workers, counseling and placement programs, and earning opportunities forums for mature women.

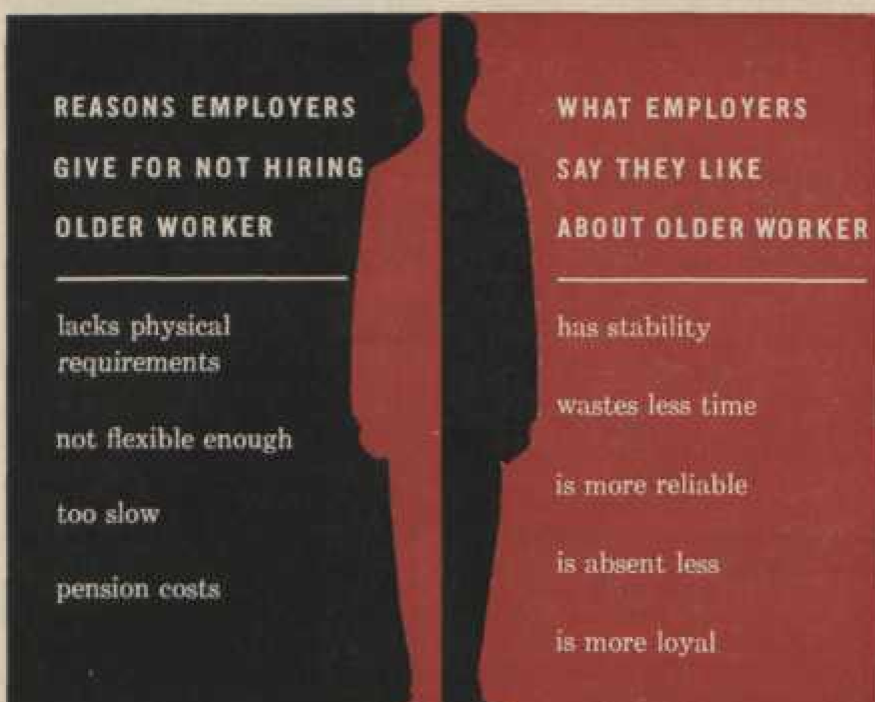
At the state level:

▶ State employment agencies and their local offices are cooperating with the Labor Department's Bureau of Employment Security in demonstrations, studies and surveys.

▶ States are showing increasing interest in employment problems of older workers.

Four states—Colorado, Louisiana, Massachusetts and Rhode Island—have passed laws against age discrimination. New York, Michigan, Ohio and others have taken steps relating to the problem.

Rhode Island's law, effective two



Some good spots for your new plant site

LIVONIA, MICH.

A growth location. Between Detroit and Plymouth in the heart of the Motor Belt. Trackside properties up to 100 acres with all utilities at hand. The area also offers excellent highways. And few others can boast of as large a pool of skilled labor.

MUSKEGON, MICH.

Michigan's Largest Port on Lake Michigan. Lake water and salt deposits in unlimited supply. First class rail, water, air and highway transport. Good sites on C&O lines in the city, to the north, and to the south. Add a bonus here in attractive living and good recreation.

SOUTH PORTSMOUTH, KY.

Ohio River vantage point. South Portsmouth is just across the Ohio river from Portsmouth, Ohio, one of the few cities in the country with a real surplus of skilled labor, due to completion of the nearby AEC plant. It is the station for Portsmouth on the C&O mainline with direct service to all points for both freight and passengers. Good plant sites are available fronting on both rail and river.

RICHMOND, VA.

Gateway to the Southeast. One of the best distributing points for the Southeast is Richmond, with its network of rail lines fanning out in every direction. The 200 acre airport Industrial District is within Richmond switching limits and adjoins the Byrd Airport. Ford Motor and Allis Chalmers have plants here now.

"WHERE IS THE BEST SPOT FOR YOU?" Write for new booklet describing these and many other choice Industrial Sites available along the C&O. Address: Wayne C. Fletcher, Director of Industrial Development, Terminal Tower, Cleveland 1, Ohio.

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OVER-45 TABOO

continued

months ago, forbids discrimination by all employers with respect to hiring, laying off or rehiring workers between 45 and 65.

A 20-year-old Massachusetts law which banned hiring discrimination against the 45-65 age group was broadened and stiffened five years ago under union pressure to save jobs of older workers.

Louisiana's law forbids discrimination against workers under 50 by businesses employing 25 or more.

Colorado prohibits the discharge of workers between 18 and 60 because of age.

Most of the answers employers are looking for will come out of the Labor Department project. Congress appropriated $160,000 last year and another $170,000 this year for the studies. In addition, about $700,000 of grants-in-aid to the states has been earmarked for older worker projects.

Finishing touches are being put on the first of the studies to be completed. They will be published as they are ready.

One of them is a survey of 160,000 unemployed who were seeking jobs through the public employment offices in seven major cities last January and February. The object: To determine the characteristics of the older job seekers—the 45 and older group—and to analyze the major roadblocks which they face in hiring.

The areas surveyed were Worcester, Mass.; Philadelphia, Miami, Detroit, Minneapolis-St. Paul, Los Angeles and Seattle. Total job seekers in these cities during the two-month survey ranged from 2,600 in Worcester to 50,000 in Philadelphia.

NATION'S BUSINESS learned that this study will show:

1. Reasons employers give for not hiring older workers, in order of frequency:

Inability to meet general physical requirements.

Company policies on retirement, pensions and group insurance related to costs and eligibility.

Lack of flexibility to meet changing conditions.

Too slow on production operations.

Lack of experience or training for new fields of work.

2. Obstacles to employment of older workers, in opinion of local employment service office experts:

Physical requirements of job are set higher than necessary.

Companies refuse to hire older workers at lower pay or lower skill than previous employment.

In establishments where tips are an important part of earnings, employers will not hire older workers, particularly women, because they do not attract high tipping and therefore demand higher wages.

Promotion-from-within policy of some companies stands in the way of older outsiders.

Employers of white-collar groups having a majority of younger workers will not usually hire an older worker for fear of creating friction.

Some employers who hire top skilled workers of any age prefer younger workers for semiskilled and unskilled tasks.

Many employers have inflexible maximum age policies and instruct hiring officials not to deviate. Large firms, especially in manufacturing, finance, insurance, real estate, wholesaling and retailing, may do so.

Young personnel officers are prejudiced against over-45 applicants.

3. Obstacles presented by the attitudes and practices of older workers themselves:

Too often they have a defeatist attitude and cannot impress an employer favorably.

Some sense that they are slowing down and are prone to overemphasize the problem in seeking a new job; others cover up their physical shortcomings and thereby jeopardize their chances for less arduous work or for corrective services.

They lack know-how and salesmanship in looking for new jobs because of past stability of employment. Older workers who are given special counseling and placement services find it easier to get jobs. In two test groups of 400 workers in the seven cities, 41 per cent of those given special service and 34 per cent of those given routine service found jobs in the course of a test period.

They resist change in occupation or place of employment.

Status achieved in former jobs makes it difficult for some to accept work at lesser skill or lower pay.

Some don't recognize their own limitations and tend to set unrealistic pay and other conditions in looking for another job.

4. What employers say they like about older workers:

They have stability that comes with maturity.

They waste less time on the job.

They are more reliable and have a definite desire to work.

They are absent less and are more likely to stick on the job.

They have a sense of responsibility and loyalty.

They generally have steady work habits and a serious attitude.

They usually require less supervision once they are oriented.

They are less inclined to make trouble.

They are less distracted by outside interests or influences, have fewer domestic troubles and are capable of greater concentration.

Older married women are less likely to take time off to bear and care for children.

One employer likes an older worker in every working group because of the favorable atmosphere and stabilizing influence his presence has—a sort of "unconscious supervision."

In the cities surveyed, older men dominated the unemployed lists. Two thirds of the unemployed were men, and 43 per cent of them were 45 years or older. Of the women, only one third were in that age group.

Older women were more successful than older men in finding jobs (48 per cent as against 43 per cent), and more older women found their jobs through the public employment service (12 per cent as against eight per cent).

Older workers with professional and managerial backgrounds were least successful in finding jobs during the test period, only 34.1 per cent of them landing one. Those

Here's how pinch will come

workers **25 - 44**	*workers* **45 - 64**
now **31.2** *million*	*now* **21.4** *million*
in 1960 **31.6** *million*	*in 1960* **23.4** *million*
up only **400,000**	*up* **2 MILLION**

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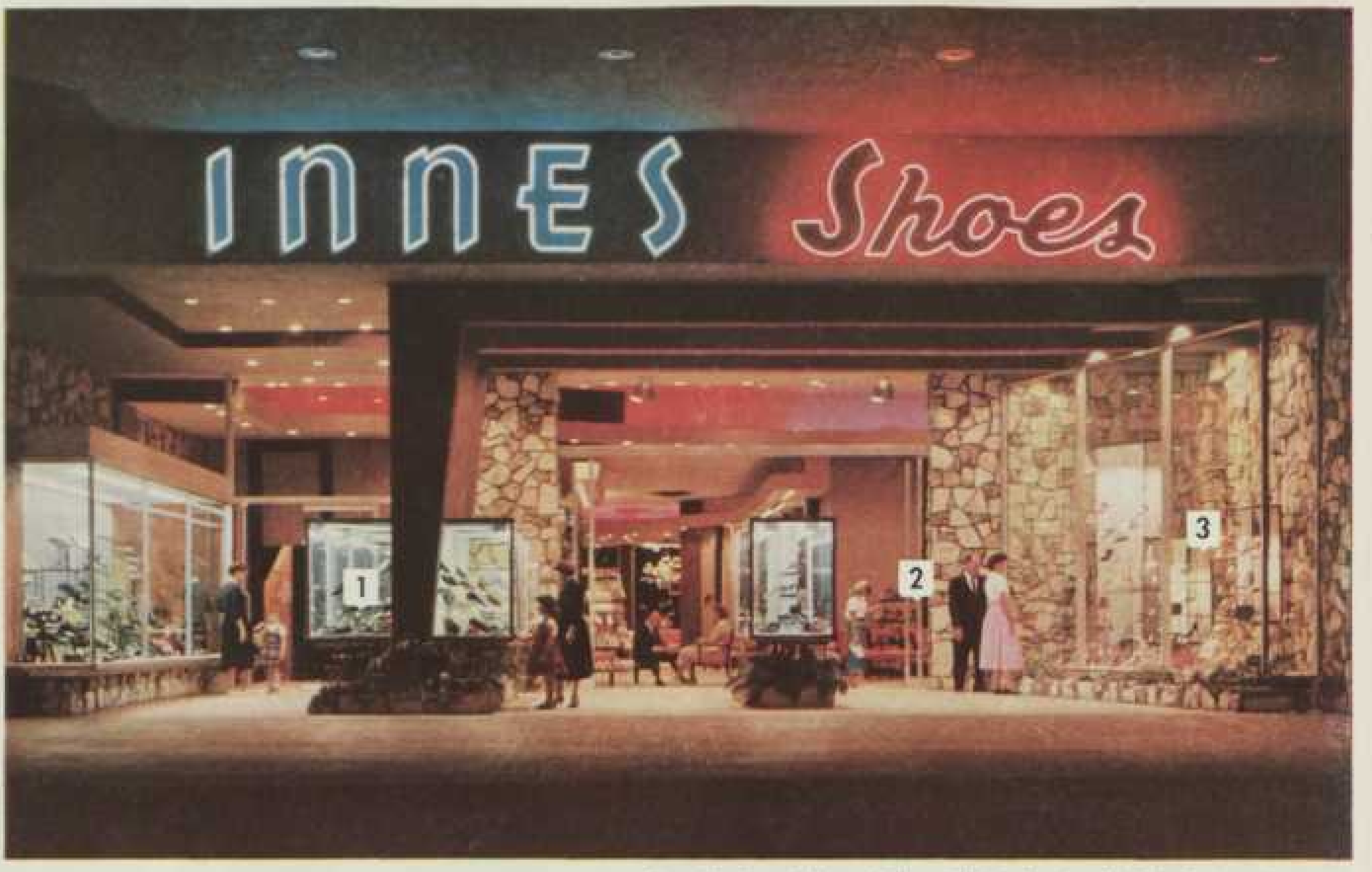

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OVER-45 TABOO

continued

from sales occupations were most successful, with a 45 per cent record. The others: semiskilled, 44 per cent; skilled, 43.6 per cent; unskilled, 43.3 per cent; service, 39.1 per cent, and clerical, 37.1 per cent.

For those who found employment, willingness to accept change in job and pay was a major factor. Of the older workers, 57 per cent changed industrial divisions, 39 per cent changed major occupational group, and about half had to take lower pay. About 18 per cent got higher pay.

The study brings out several facts about older workers:

One is that they have less formal schooling than younger job seekers.

Only one in five workers 45 and older completed high school, compared with one in three of those under 45. This further limits job opportunities for the older group because minimum educational requirements are prevalent in job listings, with a high school education specified most frequently. In four of the seven cities, more than half of the job openings listed with the employment service included educational restrictions.

It also shows that older workers tend to stay on the job longer. More than half the older job seekers had been in their last job for at least three years, compared with only one third of those under 45. This was true of almost three fourths of those over 65.

But once out of jobs older workers are out of employment longer. In each industry except durable goods manufacturing, at least half the older workers reported unemployment of six months or more in the past three years, compared with only one third of those under 45.

The same pattern prevails by occupation. Twice as many workers 45 and older in professional, managerial and skilled occupations were unemployed for six months. Those who last worked in clerical and sales jobs, mostly women, had shorter periods of unemployment.

Long illnesses are more frequent among male workers who have passed 60. They are not markedly greater among workers from 40 to 60 than among workers under 40.

Women job seekers show a peak rate of long illness occurring at ages 35-39, with a consistent decline with age thereafter.

Older workers are accustomed to higher incomes. One fifth of the 45-and-older unemployed surveyed earned $100 or more a week in their last job, and three fifths earned $60 to $99. Some employers considered this a disadvantage in hiring them because of a resistance to accept lower pay, although half of them did take jobs at less money.

Secretary Mitchell feels that the seven-city study will be useful in three ways:

The part on employment by age, sex, occupation and industry will become a useful casebook on employment policies and practices in helping employers make greater use of older workers.

The phase on characteristics and work potentials of the older unemployed will be useful in educating employers and unions on their diversity of skill and ability and also alert the public as to the need for such community services as vocational training, vocational rehabilitation, and job counseling and placement.

The demonstrations on methods, time and cost of counseling and placement of older workers will result in a program to extend and improve the quality and volume of counseling and placement services to these workers in the states. Special handbooks and training guides will be developed using the most effective methods and procedures. In addition, more reliable time and cost data will be produced to guide budget planning and management in the future.

In Worcester, Mass., for example, a training program has been under way, and will be enlarged this fall, to provide stitchers—mostly older workers—needed by the garment industry.

Under Secretary of Labor Arthur Larson, who oversees the older worker project, headed up by Charles E. Odell, likes to think of the studies as falling into two classifications: Getting rid of unreal difficulties—the myths—and dealing with real difficulties.

In the myth classification he puts, first, the idea that hiring older workers unduly increases pension costs and, second, the idea that older workers are inferior to younger ones in productivity and performance. The Labor Department is making studies in an attempt to dispel both these ideas.

The pension cost study is being conducted by the Bureau of Employment Security in cooperation with a consulting committee of pension experts representing insurance companies, banks, pension consulting firms and universities. The group split into two subgroups. One

OVER-45 TABOO

continued

is examining the immediate effects of private pensions on hiring; the other is studying the long-range implications of vesting, and pooling vested rights, in private pension plans, with respect to hiring older workers and worker mobility.

Mr. Larson says that under many, and perhaps most, pension plans the pension-cost differential is not a valid impediment to hiring older workers. His reasons, based on preliminary work with the pension cost study group:

Most private pensions today pay a variable amount based on the number of years of service and the amount of earnings rather than a flat sum.

For example, under a plan paying one per cent of monthly earnings for each year of service at 65, a man hired at 25 and averaging $300 a month will get $3 times 40, or $120 a month pension; a man hired at 55 and having the same average earnings, will get $3 times 10, or $30 a month.

Even so, some employers say that to retire a short-term employe on such small pension will subject them to criticism in the community on moral grounds. But Mr. Larson believes that this argument no longer stands up because social security pensions supplement private ones, bringing the total pension up to a reasonable level.

The fact that many pension plans base the amount of pensions on the employe's earnings over the last five or ten years offsets the argument that the younger man's pension will cost less because of interest earned on contributions to the fund in the extra number of years he is employed.

For example, the pension of a worker hired at $200 a month at age 25 will be much higher, and out of all proportion to the contributions paid into his account at that age, than the pension of a man hired at the same salary who is, say, 55 years old. The younger man hired will probably average more than $300 a month, and maybe more, over the last 10 years of employment.

Mr. Larson concludes that the real cost of pensions must be taken to be the amount that is ultimately paid to the individual, duly adjusted and discounted, and not what appears to be the current contribution into the pension fund. The amount finally and actually paid to the man hired young, he says, is much higher in proportion to the apparent cur-

Good steer for meat packers

Here's a close look at a vital U. S. industry and the help it gets from banks.

Trimmed down to steaks, roasts and hamburgers, even the highest stepping steer figures to only 60% eating meat.

To overcome normal waste and still get popular cuts of beef, pork or lamb down to a price people are willing to pay, packers must find new uses for by-products. They must continually develop new methods of marketing and invest heavily in scientific research.

To do all these things and run their daily business, meat packers require heavy cash outlays and regularly turn to commercial banks for loans. Thus, banks help bring the sizzling steak, leg of lamb and holiday ham to your table.

As a matter of fact, wherever you look in American business or industry, you'll find commercial banks using their resources and services to keep money moving, and to stimulate industrial growth that benefits everybody.

The Chase Manhattan Bank of New York, leading lender to U. S. industry, presents these facts about meat packing to point up the daily contributions which commercial banks make to American living.

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OVER-45 TABOO

continued

rent costs than the amount paid to the man hired when older.

The pension cost study will include, Mr. Larson hopes, some actual tables showing the true costs of hiring men at various ages under several common types of pension plan, based on what he calls "this newer accounting technique."

He adds that many other cost variables often are not as real as they seem. In nonvested plans, a pension saving is realized when younger workers change jobs. Under a proper accounting system, he says, this saving would be set off against the high cost of employe turnover, such as the cost of recruiting, training and lost production.

In a publication of "Facts on Older Workers," the Labor Department reports a study by the University of Illinois showing what a typical insurance company would charge in annual premiums to provide individuals at different ages with a $100 monthly pension at 65. Annual premiums would be twice as much for a worker hired at 45 as for one hired at 30, and four times as much for one hired at 55.

The cost of pensions do affect hiring policy, particularly in companies with low profit margins, according to the Illinois study, which suggests exploration of these possible solutions:

Requiring a minimum number of years' service to be eligible for pension; permitting waiver of pension rights; early vesting and pooling of pension funds; special pension fund provisions comparable to second injury provisions in workmen's compensation laws, which reduce employer liability for second injuries.

Vesting of pension funds—the so-called portable pension—is growing among companies in a single industry, or dealing with one union, or located in one area. Under such plans, the worker can move from one employer to another participating in the plan and carry his pension credits with him.

Typical of a vested plan is the United Mine Workers' Welfare and Retirement Fund in the coal industry. The Western Conference of Teamsters is booming such a plan among canneries and other companies on the West Coast. An area plan has been operating in Toledo, O., among smaller companies having contracts with the United Automobile Workers.

On productivity and performance of older workers, studies now in

OVER-45 TABOO

continued

progress in the footwear and men's garment industries will be extended to others, one of them possibly the furniture industry.

Until now, there have been no real measures of performance of older workers. Studies usually have been in the nature of opinion surveys among supervisors. In the footwear and garment industries studies, the Bureau of Labor Statistics has devised and tested techniques for measuring performance among different age groups. Preliminary results indicate that productivity is a highly individual matter, even within age groups, and that output per man-hour varies erratically between groups and within groups, according to Mr. Larson.

He says that if this is typical it would suggest that the variability of performance within age groups is so marked that chronological age cannot be considered a valid overriding consideration in hiring, as against all other matters affecting ability to perform and produce.

This study also covers absenteeism, accident rates and turnover rates. In these, older workers show up well in comparison with younger. A 1948 BLS study on "Absenteeism and Injury Experience of Older Workers" concludes:

"The only disadvantage of older workers is that their disabilities last longer once they are injured. But they are, on the whole, less likely to be absent as frequently and perhaps less likely to be injured than younger workers."

Most of the work being done by individual companies on employment of older workers is concerned with ways to use them as they reach the older worker status while in the company's employ, rather than with hiring. Sometimes they are assigned to less arduous jobs or jobs are changed or broken down to accommodate their capabilities.

Some 1,700 labor contracts covering 1,000 or more workers, or 8,500,000 workers in all, are being analyzed by BLS with respect to provisions relating to older workers.

Now 83 per cent completed, the analysis shows that one fourth of the agreements include a specific provision concerning the hiring, utilization and retention of older employes. They range from a ban on maximum hiring age to reservation of a certain number, percentage, or specific type of jobs for older workers.

Seniority clauses in union contracts tend to protect older workers in their jobs. Some contracts require that an older worker be given an opportunity to perform a lesser job when he is no longer fit for the job he has. Some permit payment of lower wages to older workers.

In the building trades, many unions require that a certain proportion of older workers be employed on a construction project. A bricklayers' contract, for instance, requires the employment of one bricklayer 55 or older for every four bricklayers younger than that.

A smaller but representative BLS sampling of pension and health and welfare plans reveals a variety of provisions dealing with such things as continuance in employment beyond normal retirement age and the continuance of certain types of fringe benefit coverages for retired workers.

Secretary Mitchell hopes the results of the analysis will encourage employers and unions to adopt measures designed to improve and extend employment opportunities for older workers.

Earnings opportunities forums for mature women are being conducted

by the Women's Bureau. A pilot forum was held in Baltimore earlier this year and others were planned for Boston, Flint, Mich.; Seattle, and Washington, D. C.

The forums involve community demonstrations of how community action can be stimulated to develop employment, training and earning opportunities for middle-aged and older women.

Employers, private organizations, unions, and women's service organizations have cooperated.

As a result of the Baltimore forum, a counseling service for older women has been set up in the public schools there, and a publishing firm has been hiring some of the women for binding operations.

Out of the pilot studies it is hoped a basic pattern will be developed for conducting earning opportunities forums in the states, and that all states can then be urged to conduct such forums as the need for them develops. END

New study shows **salesmen's** pay range

Analysis develops three classifications for salesmen, reveals how companies use incentives to build sales, morale

SALESMEN for manufacturing firms are earning an average of 3.5 per cent more pay in 1956 than in 1955.

This is a finding of a new survey on salesmen's compensation conducted by the American Management Association. AMA checked 17,418 men in sales positions in nearly 200 companies, including food manufacturers and processors, and makers of consumer and capital goods.

More than 75 per cent of the companies surveyed pay on some form of incentive plan, with the balance paying straight salaries.

Although there are wide variations in salesmen's total pay (a top man's income can rival the boss') manufacturing companies reported pay ranges for salesmen, below the supervisory level, from $5,000 to $15,000 a year.

Salesmen are just salesmen to most companies, the survey implies. They're hired, they learn to sell, they grow in experience and ability. But generally, they're not divided into classes which reflect variations in their capability, income and responsibility.

Few businesses appear to make the same systematic and analytical approach to the compensation of salesmen that has long been the practice in deciding on and computing the pay methods and scale for production, clerical and managerial employes. At the same time, sales compensation is of major importance because of its effect on the cost of selling, obtaining and keeping good salesmen, insuring good performance and maintaining internal equity and fairness. Evaluating the findings presented a problem because of a lack of categories for comparison; one company lumped all its salesmen into one class even though its compensation scale ran the full range of $5,000 to $15,000.

Dean H. Rosensteel, director of the association's Executive Compensation Service, which made the survey, says salesmen below the supervisory level fall generally into three divisions and represent probably about 75 per cent of all salesmen in manufacturing companies. The categories devised are:

Grade I. A salesman in this class is assigned a limited territory, has minor accounts. He gets substantial supervision, usually can't change prices or delivery policies except for routine matters and unless given specific authorization. He is lowest on the pay scale among qualified salesmen, ranges in total compensation on the average, between $5,000 and $7,500. About 60 per cent fall within this classification.

Grade II. This man might be new in the company, but has a sales background. For companies which don't hire inexperienced salesmen this is the entering level. The Grade II man usually has a regular territory and gets little supervision. His salary range averages from $6,000 to $10,000. About 30 per cent are in this category.

Grade III. A salesman in this class is the highest level without substantial supervisory responsibilities. He gets practically no supervision himself, handles key accounts and territories and occasionally may assist in supervising less experienced salesmen. This group represents 10 per cent of the salesmen, and total compensation ranges from $8,500 to $15,000.

Berthold B. Baer, Mr. Rosensteel's assistant, who also worked on the survey, says four other categories were outlined. Some companies, for example, have a beginning classification for sales trainees. Men in this group usually have little experience. Their training periods range from six weeks to two years and, on completion, they're eligible for promotion to field selling.

Supervisory members of the sales staff were charted in these three additional classifications:

Sales Supervisor. This man is a supervisor first and a salesman second. He may have a few key accounts but chiefly he coordinates the efforts of a group of salesmen.

District Manager. He represents management direction and generally would be responsible for an area covering a group of territories, coordinating efforts between them. He would have certain staff functions such as sales promotion, servicing.

Regional Manager. This executive would tie in the work of the district managers. He represents top level supervision below the corporate level.

Methods of compensation vary widely and there are many exceptions to the averages in the amount of compensation paid. In the jewelry industry, for example, salesmen selling prestige items often make many times more than the averages represented.

Ordinarily, under a salary administration program, Mr. Baer points out, salaries reflect the value that a company places on a position. Incentives are the reward for extra effort. A salesman's worth is reflected in his total compensation, whether it is straight salary, straight

(Continued on page 61)

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SALESMEN'S PAY

continued

commission or a combination of salary and incentive.

Twenty-three per cent of the companies surveyed pay their salesmen straight salaries, 10.7 per cent pay straight commissions; 24.1 per cent, salary and commission; 36.5 per cent, salary and bonus; four per cent salary and special contests, and 1.7 per cent, salary, commission and bonus.

AMA makes this distinction between commissions and bonuses: The commission plan contemplates payment at frequent intervals shortly after the sum is earned. The relationship to sales volume is direct.

A bonus plan usually doesn't operate until the sales volume for which the salary is paid has been met. It's usually something extra, rarely is found alone and usually is paid at less frequent intervals than a commission.

More and more companies report difficulty in attracting and holding sales personnel and consequently are interested in useful and equitable incentive plans. The association emphasizes two steps to follow before choosing any incentive plan.

► *Establish whether the incentive plan would be productive.* In some cases an incentive would not be productive; in heavy capital goods, for example, where a sale might take years and involve a number of men, making it difficult to divide credit equitably. Company practices are frequently determined by products, markets, traditions of industry. Approximately 84 per cent of the consumer goods producers surveyed use pay plans involving extra compensation, while about 68 per cent of industrial goods manufacturers have such plans.

► *Establish the objectives of the plan.* Any plan must be prepared in light of the selling problems of a firm, Mr. Baer says. Why have an incentive? For increased sales? Reduced selling costs? Promotion of large volume? Movement of seasonal items with high markup? Leveling of production volume?

One firm which made 75 per cent of its sales in four months of the year sought a plan to level its volume throughout the year. It started the commission year at the height of the season, using standard or below-standard commission rates, and increasing rates after the season closed. Based on normal sales, salesmen would continue to get their usual earnings. But if sales were made during the second half of the

SALESMEN'S PAY

continued

year, salesmen could substantially increase their earnings. The resultant savings in production costs, however, would more than offset increased commissions.

On the question of quotas, most firms surveyed operate on the concept that a salesman is paid a salary to sell a certain amount of the product; beyond that he is paid a bonus or commission. Some companies start paying extra compensation when 50 per cent of the quota is reached, but more often no extra compensation is paid until the quota is met. One firm considered four points in establishing quotas; the minimum sales needed for profitable performance, the ultimate selling goal in the firm's planning program, what a good salesman should accomplish, and the need for control over a salesman's activities.

The dollar volume of sales is the simplest and most often noted method of measuring payment of incentives, with the next most popular method being extra compensation for the number of units sold. The survey reflected frequent combinations of methods, Mr. Baer said.

Most companies surveyed use constant rates in calculating incentives, but the study also reflected use of decreasing rates with increasing volume, and increasing rates with increasing volume.

There was no recognizable industry pattern in the frequency of incentive payments. About 38 per cent of the manufacturers surveyed pay bonuses once a year, 21 per cent pay semiannually, 17 per cent, quarterly, and 24 per cent, monthly, or more often. Monthly payments usually are in the form of commissions, and salesmen regard them as part of base compensation.

Less frequent payments are commonly bonus extras, and are not used for daily living expenses.

A fairly common provision among companies surveyed is that incentive payments cannot exceed a certain per cent of salary or total compensation. Many establish an actual dollar limitation. Some raise quotas, limit territories, accounts or rates. All limitation provisions are potentially damaging to morale and the study shows that most firms are conscious of this fact.

Of those reporting limitations two used a $10,000 limit, 13 placed limitations in relation to percentages of salary, one set a limit when 150 per cent of the quota was reached and three others used limits that were not specified. END

PAY IDEAS

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exempt as life insurance proceeds paid by reason of death.

Under the split-dollar arrangement, the employe's payments decrease each year until, in seven to ten years under some plans, they can cease entirely.

Avoiding estate tax on insurance proceeds The executive can probably avoid estate tax on insurance policies the company buys for him, just as he can on those he buys himself, according to the Institute's tax specialists. He does this by giving up all his rights in the policy. First he makes an irrevocable selection of beneficiaries who will take the proceeds if the primary beneficiary dies before the insured. Next, he must make sure he's left with no other direct or indirect rights in the policy—such as the right to borrow on or surrender it. This can be done by having the company (or a beneficiary) hold the policy and all rights under it. With such an arrangement, there is a good chance that no part of the proceeds will be taxed in the executive's estate.

Interest-free loans More and more companies are setting up liberal loan plans under which executives and key men can borrow under highly favorable terms. This trend will probably be spurred, the Institute's tax men believe, by the Treasury's recent announcement—in the case of the split-dollar insurance—that an employe does not realize taxable income merely because the company makes its funds available to him interest-free.

No particular advantage or disadvantage accrues to the company in making an interest-free loan, since it gets no deduction in any event. At worst, it loses the after-tax return which might be obtained were the money invested elsewhere. But this can be a low price for such assets as increased executive good will and reduction in executive turnover.

Training and education One rapidly-growing development in the fringe program is the provision by more and more companies of educational and training benefits for company employes and their children.

To supplement their own internal training, many companies utilize special management courses at such universities as Harvard, Cornell, Pennsylvania and Stanford—courses that often cost as much as $2,000.

The tax picture on this kind of executive training is not yet entirely clear, according to the Institute. It

(Continued on page 66)

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PAY IDEAS

continued

is a Treasury-approved principle that the cost of training apprentices is deductible. But the Treasury might, in some cases, rule that such costs are nondeductible capital expenditures since results will not be realized for some years.

The executive's tax problem is less clear. Where the company sends the executive to a university, it appears that he will probably escape tax on condition that attendance is required by the employer if the employe is to keep his current position. He may be taxed if the university course is not required by the employer. He may also be taxable if it is a stepping-stone to a better position.

Many companies offer educational opportunities to employes' children by scholarships granted either directly or through some particular college, university or foundation. Others have educational loan plans whereby the employe can borrow on favorable terms to finance his children's education. Some companies, among them General Electric, combine both types of programs.

The company can probably deduct a scholarship granted directly to an executive's child if the cost qualifies as a general business expense designed to promote employe welfare, morale and good will, the Institute advises. This would probably mean that the children of employes, generally, would have to be eligible.

In summing up current findings and practices in executive fringe compensation, the Institute concludes:

For maximum effectiveness at a minimum after-tax cost, an executive fringe program must meet a double test:

First, is the cost of the benefit deductible by the company?

Second, is the value or cost of the benefit tax-free to the executive?

For some executive fringes, the law plus Treasury regulations provides guidance definite enough to permit reasonably accurate anticipation of tax effects. This is true, for example, in the case of health and accident insurance coverage, life insurance policies and executive expense accounts.

In many other benefits, tax practices are less definite. Nevertheless, general rules can be applied:

The company can take a tax deduction for benefits not specifically covered by the law or regulations if the expense is—

A deductible general business ex-

pense—incurred, for example, to promote health, well-being or good will of the executive; or

Deductible additional compensation for services rendered.

But deduction by the company is barred if the expense is not an ordinary or necessary business expense, but is in reality—

A gift to the executive; or

A dividend, where the executive is also a stockholder.

Whether the benefit is tax-free to the executive can be even harder to pin down. But under the general rules, a benefit is taxable income if it is—

An additional compensation for services rendered; or

A dividend, where the executive is also a stockholder.

Persistent reports have been coming from Washington that the Treasury is planning to tighten up on fringe benefits, with emphasis on their taxability to employes, but the Institute believes that the Treasury's attitude will be reasonable.

For one thing, fringe benefits are deeply entrenched in the national economy. They are provided for both union and nonunion employes and are becoming increasingly standard for executive and key personnel. To tax these benefits generally could raise economic and political havoc. Besides, enforcement of a hard policy would be difficult and costly.

Nevertheless, companies should set up all possible safeguards, the Institute advises. Here are a few suggestions:

▶ *Avoid discrimination.* The broader the coverage of the program, the less chance the company will lose its deduction and the executive be taxed.

▶ *Hold specific benefits to moderate cost.* Exessive costs deducted by the company will probably be disallowed, and all or part taxed to the executive.

▶ *Have the executive pay part of the cost.* This can make it less likely that the Treasury will tax him; yet he still has the advantage of paying the company less in after-tax money than he would if he bought in the open market.

▶ *Tie executive fringes to business benefits.* Executive fringes will be on a sounder footing tax-wise if they can be justified as designed to obtain top-quality services through increased health, good will, contentment and loyalty.

Deferred compensation

One of the best ways of raising the take-home pay of highly paid men is deferred compensation—that

PAY IDEAS

continued

is, compensation spread over a stated period.

Many corporations use some form of deferred compensation. Nevertheless, some of the methods used by industrial leaders are reported here for a double purpose: (*a*) to give a bird's eye view of current practices and (*b*) to pass on information that may be new for companies not now using a plan.

Object: to show how to gain the advantages of deferred compensation without falling into tax traps.

Smaller companies find deferred compensation even more valuable than do the larger corporations. The smaller firm needs top-flight key men and can least afford to pay them the kind of money they can command these days.

Large or small, the company itself has no particular tax advantage or disadvantage. But it gains in other ways. The increased after-tax income draws and holds good men. Incentive features in the plans stimulate executive efforts. The shifting of command to younger men is made easier. More company funds are freed to be used as working capital, for expansion and other purposes.

Basically, under a deferred compensation plan the executive simply agrees to have part of his pay spread over future years, whether salary, bonus, share of profits, or a combination of these. He does this to gain possible tax benefits, based on two assumptions:

1. The deferred payments will not be taxed as income until actually received.

2. The deferred payments will be taxed at a lower rate because the recipient will not be earning his present salary and thus will be in a lower bracket.

To illustrate, let's go back to the case of the vice president who receives $25,000 from the ABC Company. Under ABC's plan, he expects to retire in five years at about $3,000 a year. He feels that his salary is too small and he worries about the small income he will have after retirement. So it turns out that the company is willing to raise his current salary to $35,000, a total increase of $50,000 over the next five years.

If it is paid entirely as current salary, this $50,000 will net the president only $5,330 a year more after federal tax, or a total of only $26,650.

But, if the $50,000 increase is deferred and paid over the first five

PAY IDEAS

continued

years of retirement, the tax take will be only $12,100, leaving him a net of $37,900. The deferred pay plan will therefore save him $11,250. If payment is deferred over ten years, the saving will be $12,550.

Pay is usually deferred under two general types of arrangements:

1. An individual contract or series of contracts with selected executives.

2. A bonus or profit-sharing plan covering a broad group of key men.

The examples listed below illustrate typical deferred compensation plans:

In 1954, H. L. Hoffman signed an agreement with the Hoffman Radio Corporation under which he was employed as general manager from Jan. 1, 1955 to Dec. 31, 1959, at a salary of $30,000 a year, plus an expense allowance. If Mr. Hoffman continues to be employed through 1959, the company will pay him $19,000 a year for life. If he dies between 1959 and 1979, the company will pay $19,000 annually to his estate or designated beneficiaries until 1979.

Twentieth-Century Fox signed up for the exclusive services of Mr. A. Lightman for one year at a salary of $60,000, plus traveling expenses. His duties: to improve film distribution methods, recommend changes in policy and train the sales organization. For the next four years, the company agreed to pay Mr. Lightman $35,000 a year for such advisory services "as may be necessary."

Company bonus arrangements which pay the executive a share of the year's profits are common. The Du Pont plan goes back to 1904 and General Motors has operated one since 1918.

But the addition of deferred payment features to these plans is more recent. For example, General Mills amended its profit-sharing plan to permit the deferred payment of bonuses. Colgate-Palmolive adopted a revised profit incentive plan to include payment of bonuses exceeding $5,000 over a five-year period.

But under most deferred bonus and profit-sharing plans, the executive can't take his bonus and leave. He must earn it by continuing to serve the company until the bonus is paid. General Electric, for example, holds up distribution until after employment ends. General Foods defers payment only over a specified period following the award. Ford defers payment over a stated number of years.

Fairly new in this field are deferred cash payments geared to company stock. These are similar to deferred stock plans; however, they pay off in cash, relating the amount of the cash benefit to the value of the company's stock. The plan used by the Koppers Company is fairly typical.

Under this plan, the executive gets a number of units and is credited with an amount equivalent to the fair market value of an equal number of shares of Koppers common on the day of the award. The employe gets no right to the actual shares but the number of his units will reflect any stock dividends, splits and combinations that take place. He is also credited with an amount equal to cash dividends paid during his employment on shares equal to his units.

When employment ends, the executive's account is enlarged by any increases in the value of the stock between the date of award and the date employment ends—or, at the executive's option, any date within three years after termination. The total cash value of the executive's account is then paid quarterly over a ten-year period.

There are several restrictions: *(a)* The executive must agree to continue employment for five years, or until death or retirement. *(b)* He must remain available for consultation during the ten-year deferment period. *(c)* He must not compete with the company.

Precautions Here are a few precautions advocated by the Institute to gain the advantages of deferred compensation without falling into tax traps:

1. *Avoid delay in arranging for deferred payments.* If a plan to defer payments is made after the executive has performed the services, it may run into trouble. The safest procedure is to make the arrangement before the services have been rendered.

2. *In setting up a deferred compensation plan, consider the following provisions. They can avoid a claim of immediate income against the executive.*

a. The executive must remain actively employed for a specified period—say, five years. If he works out the period, he's entitled to receive all of the deferred payments. If he quits or is fired for cause any time before, he forfeits all payments. If he dies or becomes physically incapacitated during the period, payments are usually made, though they may be scaled down.

b. The executive must not compete with the company after he leaves. He forfeits his benefits if he is em-

ployed by a competitor, invests in a competing business or operates his own competing business.

c. The executive must render part-time advisory services. Most arrangements require that he be ready, willing and able to render assistance to the company by consultation and advice.

d. The executive's outside income must not exceed a certain amount. This relieves the company of payments if the executive leaves for other employment or to set up his own business.

e. The company's earnings must not fall below a stated level. Provisions are sometimes made whereby payments are reduced or cancelled if the company has a loss or earnings fall below a specified level.

3. *As a general precaution, the company's obligation to pay the deferred compensation should be no more than a simple contractual promise.* Do not give the executive a bond, note or other negotiable instrument, or he may be taxed immediately on its fair market value.

Stock options

Another popular method of compensating key men is by granting them options (or warrants) to buy stock of the employer corporation or an affiliated company at a specified price. The executive gains through exercise (or sale) of this option to buy at the specified price when the stock has risen higher than the option price. Further gains may be realized through later sale of this stock when its value is still higher.

The tax aims sought through this type of arrangement are two-fold:

1. To defer realization of income to a future year when the executive's tax bracket will be lower.

2. To have the income taxed at no more than the 25 per cent maximum long-term capital gains rate.

Whether these aims can be safely achieved depends in the first instance on whether or not the option meets the tax law requirements of a restricted stock option.

There are two types of options: restricted and unrestricted.

► Restricted options must meet fairly precise tests as to option price, period for holding stock, nontransferability of the option, and so on. When these are met, the executive is assured of favorable tax treatment. From a tax standpoint, restricted options are best for executive compensation purposes, the Institute tax specialists advise. One disadvantage, however, they say, is the fact

> The Internal Revenue Service says it fully recognizes the right of every taxpayer to arrange his affairs so as to minimize the amount of taxes he must pay, within the intent of our tax laws, so long as this end is not accomplished by "wholly devious or illogical methods"

PAY IDEAS

continued

that the company cannot deduct any amount under the heading of compensation when these options are used.

▶ Unrestricted options. A U. S. Supreme Court decision in May for the most part knocked out the possibility of obtaining favorable capital gains treatment of income realized by stock options which fail to qualify as restricted options. However, an executive still retains the advantage of deferring income to a year when his tax bracket will be lower. He may have considerable discretion in selecting the appropriate year since he can determine the particular year in which the option is exercised and the stock sold. Another advantage: The company is entitled to a tax reduction for the amount taxed to the executive.

Pensions and profit-sharing

Because of their tremendous earning power for company executives and other employes, profit-sharing plans have for some time been widely used by the large corporations. Now, their use is spreading rapidly among smaller and medium sized firms because such substantial tax savings accrue, both to the organization and the employe. Because of widespread interest among both large and small companies, the highlights of current practices are being reviewed by the Institute in a forthcoming special report.

Through the use of profit-sharing plans, it will say, the average executive can pile up more than twice the amount he could accumulate through his own investment. This is true for two reasons: First, because no tax is paid on the money put into the plan and, second, because the money earned by the plan is tax-exempt.

As an illustration of the rapid build-up, the XYZ Company is willing to pay a 40-year-old executive an additional $3,000 a year. If the executive is in a 50 per cent top tax bracket, this increase will yield only about $1,500 after taxes. Invested at four per cent until he reaches 65, the money will build up to about $48,000, taking into account the annual tax on the income.

However, if the company puts $3,000 into a profit-sharing trust, the executive's fund on retirement at 65 will be about $125,000, not counting additional amounts which might result from forfeiture of benefits by other employes. If he takes this $125,000 in a lump sum, his tax will be no more than $31,250, leaving him a net of $93,750.

And the company's after-tax cost of paying into the trust is no greater than paying the executive directly.

Tax aspects of pensions are so similar to those of profit-sharing that the two are here treated together. In a profit-sharing plan, the company sets aside a certain proportion of the year's profits. In the pension plan, it allocates payments sufficient to produce the benefits to be paid under the plan. In both cases, the corporation makes payments to a trust for the benefit of employes covered by the plan. The money is invested and held in trust until retirement or some specified time, when the employe receives his share.

Apart from certain special situations, profit-sharing trusts are generally more suitable for compensating executives and key personnel than pension plans. Pension plans do offer definite tax possibilities, but a small or medium-sized company may have trouble carrying the fairly fixed costs involved. Profit-sharing plans carry no fixed cost requirements and therefore don't become burdensome in lean years. Yet they permit contributions in profitable years which will provide substantial benefits for the executive. These considerations are especially important to the owners of small or medium-sized corporations.

Five major tax benefits which can result from the use of pension and profit-sharing plans are cited in the Institute report:

1. *The executive and other em-*

ployes covered aren't taxed until they receive their share of the money from the trust. The tax is levied only when distribution takes place—usually in some future year when tax rates may be lower. Even if rates are still high, the employe's tax bracket will probably be much lower when he takes the money.

2. *Payments made by the company are immediately deductible in full even though not immediately taxable to the executive.*

3. *If the executive quits, retires, or dies, and his entire share is paid over to him within a single year, the money changes from a fully taxable ordinary income to a long-term capital gain, taxable at no more than 25 per cent.* If the executive's share is paid in stock of the employer company, he pays no tax at the time of receipt on the increase in value of the stock while held by the trust.

4. *Survivorship payments to the beneficiaries of the executive may be exempt from estate tax.*

5. *The trust pays no income tax on the money earned by the trust funds.* This permits rapid build-up of the funds through re-investment of tax-free income.

Pension and profit-sharing plans can be a highly effective means of increasing employe good will. A plan which defers payment until retirement gives an executive a strong incentive for staying with the company. His share of the company's contributions, remaining in trust, accumulates interest and dividends tax-free. The nearest any executive could come to achieving the same result would be to invest in tax-free securities—and even these earn less than the trust funds.

Limitations on profit-sharing and pensions. To gain Treasury approval necessary to obtain tax advantages under these plans, the report says, certain requirements must be met:

1. *A plan will not be approved if it favors highly paid employes or stockholder employes, either through the eligibility tests for participants or through the formula for dividing up the money.* This doesn't mean that all employes must be covered. A company is free, for example, to exclude part-time employes. Coverage may be restricted to salaried employes as against hourly employes, to the technical staff as against the sales staff. The key is that these permissible discriminations must result neither in a plan confined primarily to highly paid executives or stockholder-employes, nor throw a disproportionate amount of benefits to them. However, there's no discrimination if the contributions made to the trust are distributed to those who participate in proportion to their total compensation, even though highly paid employes necessarily get a bigger share.

2. *Watch the ceiling on the corporation's deduction.* The corporation's income tax deduction for payments to a profit-sharing trust must not exceed 15 per cent of the year's total compensation (before profit-sharing) paid to the employes covered by the plan. However, any payments in excess of this maximum may be carried forward and deducted in succeeding years. Deductions for payments to a pension trust are limited to either five per cent of the total annual compensation paid to the covered employes or a larger amount required on an actuarial basis to maintain the plan.

In summary

There is no ready-made combination of plans for all companies, Institute tax experts point out. The over-all compensation plan has to be tailor-made to fit each particular company's needs.

But, in any event, the company plan should be prepared under the supervision of professionals, they say. Expert professional counsel is needed not only to find the plan best-adapted to the company but to work out tax and legal technicalities.

A business can use all of these four basic types of compensation and really pile up the benefits for its executives. There are still many shadow areas, say the tax specialists, but enough ground has been cleared to make it possible for any company—large or small—to work out a comprehensive benefit program.

And while the talk has been mainly about the shortage of engineers, the need for good executive talent is almost as great all through American industry. Thus, the need to develop and motivate executives must be at the top of the agenda in any progressive company today. Motivation can be provided in a large share by money, plus the easing of anxieties about old age, illness and family security. The right combination of salary, fringes, deferred compensation and profit-sharing can remove much of the pressure under which the executive is laboring today, making it possible for him to stay on the job at the peak of his efficiency.—PHILIP GUSTAFSON

REPRINTS *of "New Pay Ideas Help Hold Executives" may be obtained for 20 cents a copy or $15 per 100, postpaid, from Nation's Business, Washington 6, D.C.*

BOOSTS TAX LOAD

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What's more, after this super shopping list is ready for government-wide use, the way is open to establish a new inventory control system so promising it "could save at least $1 billion a year," Pentagon officials predict.

The new proposal involves integration of more than 60 memory-storing electronic data processing machines throughout the country. They could eliminate all factors but obsolescence as causes of surplus, it is claimed.

The military already has 25 of these electronic statistical storehouses but they are scattered around the country, and their findings aren't coordinated.

Once Secretary Wilson approves the integration of the system, 37 more machines are to be obtained. Purchase price would average from $1 million to $4 million each.

"All the machines could be tied in after about three years," says one official. They could be used for keeping tabs on men, money and depot space besides materials. At least $1 billion would be saved initially, it is estimated. After that, the prediction is operating stocks could be cut by about $1 billion each year.

Proponents claim: The machines, supplied with inventory data, can tell a property manager his inventory position in minutes. Wasteful concurrent buying and selling could be eliminated. Interservice transfers of property could be made compulsory.

Real property as well as personal property could be kept track of.

As recently as two months ago, the Senate Preparedness Investigating Committee issued a report blasting the military for concurrent buying and selling. It charged that the services were selling "vast sums" of excess equipment at bargain prices and buying the same goods at high cost.

Some examples:

The Navy in June, 1955, sold 4,788,144 unused hacksaw blades, but it planned to buy during fiscal years 1955, 1956 and 1957 hacksaw blades of "exactly the same description."

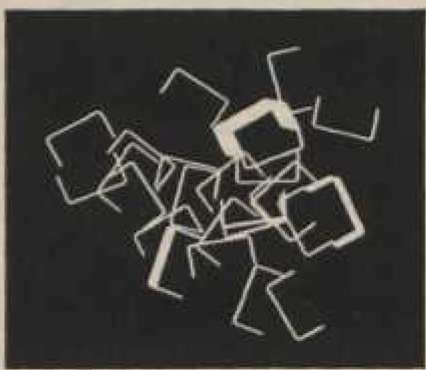
In February, 1955, the Air Force sold 28,900 pairs of unused "mitten shells," a sort of flight glove, for $8,670. They originally cost $94,792. The Air Force later planned to "buy a large quantity of identical mitten shells." The only difference in what was bought and sold was in the catalog numbering system, the subcommittee said. One item was listed under general-purpose clothing, while the other was under special-purpose clothing.

Supply control points served by electronic data processing machines and linked by high speed communications can inform property managers "in a matter of minutes" whether one service is selling something another wants to buy.

At present the military has a system of screening excess property whereby one service lists and circularizes to its sister services and other government agencies what common use things it has declared excess before making a public sale.

Last January, an Interservice Supply Support Coordinating Committee was set up, headed by the three top supply managers. They agreed they would exchange excesses, particularly "glamor items," the 1.5 million common use items declared excess regularly.

But as the Senate investigating subcommittee pointed out in July, and the Hoover Commission has noted before, procurement officers "appear overly reluctant to accept excess property, even though it is unused and in a good or excellent condition, when they have funds to buy new." The subcommittee also said regulations on exchange of military merchandise "are not stringent enough to make the interservice transfer of goods mandatory."



In June, 1955, one agency sold 19,685 boxes of unused staples.
Cost—$34,449.
Sale proceeds—$3,622.
Return—10.5%.

Pentagon men believe they would lick this problem, too, with the electronic machines. For instance, say the Navy wants to buy 25 new cars. It sends in its requisition. An electronic machine is queried on what excess cars are available elsewhere. It shows the Army has 25 cars in good condition it plans to sell. If the Navy doesn't buy the Army vehicles, the machine signals this to the Pentagon. Unless the Navy can justify its refusal, it must take the Army's autos, the Pentagon planners say.

The Senate investigating subcommittee also concluded there are "great unexplored areas" for improving standardization. Each department, it said, wants to keep its own procurement prerogatives and "resists standardization due to an apparent fear that it will result in establishment of a single source of supply as the sole purchasing agent. . . . By retaining their own peculiar or unique specifications, even on simple items, they are able . . . to insure the retention of this purchasing power which they clutch so desperately."

With the federal supply catalog complete and the machines in operation, a requisition for an item won't necessarily mean new buying of the specific item ordered if it is out of stock, officials say. If the Army orders some new coat racks, for instance, the requisition will be checked with a data processing machine. If that particular kind of coat hanger is not on hand, but a slightly different one is in stock, the machine automatically will jump to the substitute item. The Army will get the substitute.

"This will force standardization," a Pentagon supply official said, "and we won't lose the war over a coat hanger with five hooks instead of four."

Even though "we're on the threshold of a new era in data processing machines," as one Pentagon officer put it, "where today's decisions can be based on today's information not that of six months ago," there will always be surpluses.

To help push sales and boost returns, the government is about to try out several merchandising schemes and sales pitches based on Hoover Commission recommendations.

The General Services Administration has an additional $1 million for the fiscal year that began in July to promote the sale of personal property. The agency is employing merchandising experts, roving specialists in the sale of technical equipment, as part of a sales assistance program for the armed forces. At the Pentagon, it's called the helping hand program.

GSA Administrator Franklin G. Floete sees the sales assistance program as an expanding project in the months ahead. The selling experts will study the market for such specialized items as the Air Force and Atomic Energy Commission no longer need. At the military's request, they will prepare advertising, merchandising and packaging of surplus

items, too technical perhaps for some property disposal officers even to identify.

Disposal personnel don't know how much the helping hand program might hike up returns on surplus sales, but the return on sales of specialized items has been even skimpier than the seven per cent or so average return on all surplus sales. As the Hoover Commission pointed out, big savings can be made from improved disposal procedures. "An additional one cent received on each dollar cost of property sold," it said, "would yield an additional $20 million yearly."

Military men complain that measurement of return in percentage of acquisition cost is unrealistic, because depreciation isn't taken into account. But the percentage of acquisition cost is what Congress and the public see in government reports.

In another move to boost this return, the Pentagon has ordered all military departments to hold at least four field auctions between now and the first of next year to test sales methods. At these special auctions, bidders can send in sealed bids on the surplus typewriters, plane engines, silverware or whatever. After bids are received from the floor, the sealed bids are opened to see which is higher.

Still another method, possibly to be tested soon, is the use of contractors to sell technical surplus. GSA and the Defense Department will start test contracts with distributing companies with electronics and aircraft parts and equipment. Under present plans only a limited amount of government surplus will be sold by service contractors, according to GSA Administrator Floete—about five per cent, rather than surplus everyday items.

Safeguards to protect the government's property, competitive selection and the use of qualified contractors would have to be assured, he says, and, though gross sales might go up, the cost of administration might also rise too high.

"Surplus dealers, and 'junkees' have howled about the idea," says a Pentagon officer. Also Congress fears that state health and educational facilities might not get their share of donations.

Almost surely the service contractor idea will get a close inspection from Congress in coming months. Chairman John F. Kennedy of the Reorganization Subcommittee of the Senate Government Operations Committee told NATION'S BUSINESS his group probably will look into the question next year. He said he wants

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BOOSTS TAX LOAD

continued

a study of procurement practices, utilization and disposal of property in view of the giant surplus problem. He said there might be hearings even before Congress returns to Washington in January.

Rep. Chet Holifield, a member of the Hoover Commission and also Chairman of the Military Operations Subcommittee of the House Government Operations Committee, promises his group "will be checking on the efficiency of surplus sales and where Hoover Commission recommendations have been followed. . . . We'll see if new methods have been used."

Another idea being considered quietly is the sale of selected surplus property back to its manufacturers. Mr. Holifield said he saw no immediate objection to that form of sale if it would bring a better return. Deputy Assistant Defense Secretary Lanphier, however, thinks it is "not a good avenue." GSA Administrator Floete doesn't take to the idea either.

In the field of real property—real estate and its improvements, related facilities, industrial reserve plants, easements and rights of way—the Budget Bureau, GSA and the Defense Department in the past two or three years have called on their agencies and branches for an energetic search of excess property and its prompt disposal.

Uncle Sam owns more than 400 million acres—one fourth the acreage of the nation—and about 2.5 billion square feet of floor space—the equivalent of 1,250 Empire State Buildings.

There is also the problem that some agencies—such as the Atomic Energy Commission—are partly or entirely exempt from reporting excess real property to GSA.

The Hoover Commission task force believes the government doesn't need all the property it has, that in some cases it doesn't make good use of its holdings, that federal taxes are higher because the government must pay for property maintenance and doesn't get a tax return on the property.

GSA officials say directives to agencies to look over their holdings and let go of everything they can are showing results. "The old sales approach is working," says Administrator Floete. A detailed Pentagon directive a year ago told the services to retain only what they can justify.

As for disposals, merchandising and advertising techniques have become a big tool, according to Mr. Floete. Spending for advertising,

for example, increased from $14,000 in fiscal 1955 to $75,000 in fiscal 1956. It will jump to $200,000 in the current fiscal year, 1957. Dull obituary type advertisements are being dropped, GSA says. The agency also recently put out a new manual to help its men get more bidders and better prices. Another new selling aid has been to list the current market value of real property as well as acquisition cost. Through increased use of the auction, "we've gotten some unexpectedly good prices," a key disposal officer said.

Mr. Floete, flush with the $8 million sale of the government-owned foundry and machine shop at New Castle, Pa., declares, "We want to go actively into the disposal of plants. We should sell them regardless of rent. I don't think the government should be in the business even if there is a good return from rent."

GSA holds several million dollars worth of national industrial reserve plants acquired in wartime to meet urgent defense production needs. Returning these plants to private ownership, however, will be tougher than Mr. Floete would like. Many of the leases run for several years.

The Hoover Commission expressed concern that "high and growing volume of disposals should not be permitted to cause marketing dislocations which might affect employment, small business and investments" . . . and warned "of the possibilities of restraint of trade in large sales to a few buyers. . . ."

There is no law which says disposal administrators must check the market impact of a sale and make sure it doesn't hurt employment or regular commercial sales. However, the Defense Department has issued instructions that, when a sale of more more than $250,000 is to be made, the Commerce Department is to be notified so it can advise.

Commerce Department's Business and Defense Services Administration checks to determine the effect of large volume sales of everyday items and suggests appropriate times and amounts of sale.

"The Defense Department has always complied," a BDSA official reports, in 60 studies of items ranging from inner tubes to hunting knives. The problem could increase, however.

The generally agreed-upon forecast for level of surplus property is that the present tidal wave will not start ebbing for the next few years until the federal supply catalog is in operation, and accounting, supply management and communications can be improved through more businesslike practices and electronic tools. END

MANAGEMENT FROM BELOW SPREADS SKILLS

Here's what happened when John Hancock Life Insurance Company started handing job descriptions up the ladder rather than down

A NEW IDEA in personnel practice is going forward at the Home Office of the John Hancock Mutual Life Insurance Company in Boston.

Since adoption of this new approach (together with extended health services) the company's turnover rate, which sometimes went as high as 33.9 per cent a year, has been cut to below 20 per cent, and absenteeism is down from five to 3.1 per cent.

The department where the idea first was introduced is handling a 20 per cent increase in work load without calling for extra help; the morale of supervisors has been boosted, and top executives have more time for thinking and planning.

Company officials list four major conclusions:

- Personnel programs should be built up from the specific requirements of a section, division or department rather than be designed for the company as a whole and applied downward on a general basis.
- People have to be constantly challenged and stimulated to the limits of their capabilities. Otherwise, they will be tempted to look to the book rather than think for themselves.
- If people are going to be responsible they have to have someone to whom they can respond. This means, in every case, the immediate superior.
- Since business is both an economic enterprise and a social organism you can best generate the will to work when pay-envelope rewards are so blended with the employe's need to participate that the job becomes a central and interesting part of living.

In line with these conclusions, John Hancock now starts at the bottom of the management ladder and hands job descriptions up rung by rung rather than starting at the top and handing them down. Doing it in this way makes it possible to assess more accurately what every person is capable of handling and what he would like his managerial role to become. It gives everyone a chance to paint a self-portrait, technical and psychological, as well as to spell out the specifics of his position. It also minimizes the impulse of almost every executive to hold onto as many tasks as possible, largely because he feels that work will be done best when he has his finger in the pie.

Despite the seller's market for labor in Boston, the personnel staff is battling to reduce turnover to 15 per cent in 1957. This may be close to the irreducible minimum because, as Admiral John L. McCrea (USN, Ret.,) vice president for personnel and client relations, explains, "You can't buck biology. More than 80 per cent of our home office employes are women. Single girls remain with us until they get married and the babies begin to arrive. Then they stay home. Those who don't marry tend to stick with us—as do most of the older married women whose youngsters are of high school or college age."

Harold F. Hatch, associate controller, says that mechanization also did a lot in raising work load capacity. "But," he adds, "don't forget that when you feed machines wrong data, you get wrong answers. When we started out training to broaden decision-making powers down the line, we were in the midst of conversion and had to run two parallel systems, one manual, the other mechanical. Now that we're converting again, this time to electronic computation, that training will be more important than ever because we've got to have an over-all upgrading of skills."

Prior to this new stress on more decision-making from below, the supervisor had found it somewhat unreal to identify himself with management. Like many a foreman in industry, he felt himself to be part boss, part worker, a hybrid.

"There's no doubt," says Mr. William Schempers, division manager for district agency accounting, "that his job was too close to that of the clerks in some ways and too limited altogether. In my own setup he could handle only invoice billings. He had nothing to do with incoming accounts, commissions, reinstatements, terminations. He now covers all these. He has a sense that 'this is my baby.' We have a blackboard that shows the daily and weekly records for each section. He feels that the eyes of the division are on him. He wants his section to lead because it makes him a leader. He thinks and acts like a part of the management team.

Although, under the new dispensation, the supervisor's take-home pay has been lifted about 10 per cent, Mr. Schempers reports, this monetary gain is less significant than the tonic effect on his morale. Recently, one supervisor, though it made much more work for him, came up with a plan to eliminate delays in sending commissions to agents in the field.

Another, on his own time, has just designed a refresher chart for new employes who may have missed a step in their training.

A valuable by-product of the new administrative structure, Mr. Schempers points out, is that it has enabled the division manager and supervisor to transmit the new variety and interest of their own jobs to the work of employes, to supplant the single repetitive operation by several related operations.

Just as division manager and supervisor have to keep up with their training, they have to bring their employes along with the aid of instructors in everything from business English to the use of adding machines and the fundamentals of life insurance, all courses given on company time.

The result of all this, Mr. Schempers declares, has been to boost production in his division by 10 per cent, during the past 18 months, with two per cent fewer people; to give him freedom from detail and the time to analyze, make studies, improve procedures, duties he has appropriated from his boss; and to create an *esprit*

de corps illustrated by his division's pinch-hitting arrangement.

"After attendance is taken each morning," he relates, "the supervisors get together and find that they have, say, four identical desks uncovered. So they play checkers—lend and borrow from each other. The clerks are glad to fill in—the fast ones are always giving the slower ones a lift anyway. Besides, they all know that they get 15 points in their merit rating for that kind of cooperation. Moreover, even though the sections compete against each other, if Section I is behind schedule, Sections II and III, which may be ahead, will pitch in to help get the work out."

In the opinion of John W. White, supervisor of 45 clerks, the chief advantage of the big change at John Hancock is that "Everybody has a broader scope. We see operations, as a whole, and how we fit in. Each section is a separate little company. Supervisors are interchangeable. Someone could step into my shoes. It's like Notre Dame with a four platoon system."

"The girls know," he adds, "that they can deal direct. They can get an answer right away. They know where they stand, all the time. They even volunteer for more work instead of having to be asked."

Spearheading the John Hancock transformation is Associate Chief of Personnel William H. Eastman who affirms that "the major mistakes in today's personnel work are rooted, in our view, in false concepts about human motivation."

"Too many organizations," he continues, "seem to believe that the question, 'How do you motivate employes?' means, in effect, how do you manipulate them, how do you get them to behave in a passive, dependent manner as against encouraging them to become active, self-reliant individuals. The frequent result is conformity that glorifies routine at the expense of initiative."

He also observes that motivation is an inner urging; that, in one sense, it is impossible to motivate anybody since the drives, hopes, fears, certainties and insecurities are already there in the personality make up. What can be done, he says, is to provide an environment that will inspire creativity, independence of judgment, and the desire to contribute. "These can exist," he asserts, "only when they are accepted ways of life in the conduct of the business."

He translates this philosophy into four operating assumptions:

1. To improve morale, as prologue to improving output, superior and subordinate should know precisely what each expects of the other at every point in relationship.

2. To strengthen lower and middle management should be the first step in all efforts to heighten employe efficiency.

3. To induce consistently high performance, all promotions should be based on measurable achievement, rather than upon ingratiation or seniority.

4. To obtain progress in personnel activity, observation and analysis of what happens in real life situations on the job should replace prepackaged answers.

These precepts had been crystallized from scattered experiments on a partial scale, starting in 1950, and carried out by Mr. Eastman together with his aide, Training Director Ronald R. Pariseau, with the support of Admiral McCrea.

Two years ago these ideas were tested out more completely when the controller's department began to convert its accounting methods from the manual to the mechanical (punch cards). Vice President and Department head Robert E. Slater decided that he would have to reorganize his management setup drastically to keep pace with technological change and to keep records up to date on the company's $4.75 billion in assets, its $2.4 billion in annual sales, and all its myriad other transactions, including those of its 10,000 people in the field in 329 offices (70 general, 205 district, 34 group, 20 claims) across the country.

Job descriptions begin at bottom

Especially vital was the need to train up supervisory echelons. Miss Sylvia Carter, personnel assistant in the controller's department, dramatized this need to Training Director Pariseau. Together they mapped out a plan for 20 meetings, in groups of 25 or 30 each, in vertical form to include the four major strata of management (controller's office, associate controller, division managers, supervisors, sometimes with their assistants). Whether their salaries were $4,000 or $30,000 a year, whether their titles were the civilian equivalent of brigadier general or first sergeant, they all sat around the table to thresh out the responsibility and authority to be vested at each level. These sessions disclosed hankerings for more of both. Formerly, for example, a supervisor inducted new employes, as-

. . . go up executive ladder

signed them desks, lockers, briefed them on rules, obtained their cafeteria passes, turned them over to a veteran for guidance in filing, typing, computing commissions, dividends and so on.

Within his section of 15 to 45 people, the supervisor allocated the work load, answered minor questions. Although he could evaluate employe performance, he could not counsel—talk over with a clerk, for instance, why she was rated outstanding (approaching best possible), superior (beyond standard), good (up to the norm), acceptable (at minimum), unsatisfactory (below minimum). He wanted to do this. He also wanted the right to discipline employes on attendance, tardiness, comportment, as well as to recommend for raises, promotions, transfers, probations, dismissals—all previously the prerogatives of his immediate superior, the division manager. (At John Hancock a division is a segment of a department and includes from 125 to 275 employes.)

The conferees agreed that supervisors could take these and other tasks over from the division managers who, in turn, chipped various activities away from their immediate superiors, a process repeated on up the line.

Executives now see how functions mesh

As a result, higher management found that it could delegate many chores once thought to be indispensable and devote itself to thinking, planning, organizing.

Meantime, however, all this downward transfer of operations required intensive tutoring since decisions on how the job should be enlarged had to be supplemented by training on how to perform it.

For another 20 sessions, Mr. Eastman and Mr. Pariseau gathered the same cross-sections of management to ponder such case-study problems as these:

▶ Catherine Billings, a senior clerk in payrolls, has been a reliable, above-average employe for 10 years, promoted twice. Now she complains that her assistant supervisor, Miss Conlon, has been depriving her of the more interesting phases of her work, keeping her on boring routine. Previously, Miss Conlon had not only given her the more difficult assignments but had also looked to her for advice. Miss Billings ascribes this turnabout to the fact that she won a part in the company's annual show and (with company permission) had to be absent for an hour and a half every day for a month to attend rehearsals. Since then, she reports, Miss Conlon has been badgering her, trying to find errors in her tally sheets, claiming that her absence imposed extra burdens on other clerks. They deny it, say Miss Conlon is exaggerating.

Miss Billings informs the division manager that before Miss Conlon's sudden hostility she had intended to stay with the company. Now she feels she should leave since Miss Conlon's attitude will block normal advancement.

The division manager knows that Miss Conlon, even though she has been with the company 25 years and has a fine record, is extremely old-fashioned and stubborn.

Query: What do you do? (*a*) Seek a transfer for Miss Billings? (*b*) Try to alter Miss Conlon's behavior? (*c*) Have them together for a talk in your office? (*d*) Ascribe the situation to an outbreak of jealousy and wait for things to blow over? (*e*) Revamp Miss Billings' job to bypass or minimize contact with Miss Conlon? (*f*) Re-examine Miss Conlon's turnover record? (*g*) Look into her retirement status?

▶ Martha Crandall, a senior accountant, has complied with the request of her division manager to give up her old job to learn a more complex one and thus assist the department in switching over from hand to machine operations. She has displayed great facility in preparing data for punching into IBM cards, and in following through to see that they are sorted in numerical order for comparison with Addressograph plates. Her grievance, in her own words, is this: "I wish I knew what to do. I've lost out because I went along with the company when it asked me to do something special. I'm still stuck in Class 5. But if I had remained at my old station I would have been in Class 7 by now—some of the girls whose work I used to check are already in Class 7. In other words, by taking on something harder, at the company's request, I'm missing the boat. This is really a company problem, isn't it? If it is willing to spend a lot of money to improve procedures, then what I do should be worth more. My salary now is 50 cents under the maximum for Class 5. I've been penalized for doing my best. It's unfair."

Query: What immediate action is indicated? (*a*) Do you place Miss Crandall in Class 7 at once? (*b*) If so, do you start her at the middle or top instead of at the beginning rate, and thus grant her retroactive pay since she has lost money by having been kept in Class 5? (*c*) Do you warn the division manager that any such oversight is a black mark against him? (*d*) Do you feel that any explanation he offers could be satisfactory? (*e*) Do you go over his rating and promotions chart for the past two years? (*f*) Do you check Miss Crandall's work history?

The interchanges among all levels of management as they sought to cope with such cases brought participants a new awareness of the interlocking character of every executive action at every point in the scale. Moreover, this undertaking clarified for the subordinate his superior's ideas as to how the job should be handled. While modes of operating vary from one executive to another, the subordinate learned that he should absorb and carry out his superior's methods, irrespective of whether or not the same kind of work may be done differently elsewhere. The premise here is that the subordinate can gain proficiency and the basis for his own growth and self-expression only after he has served this kind of apprenticeship and acted on the assumption that his boss, first and last, is the man to impress. Conversely, the superior learned that the trust and respect of the subordinate can be won only when both know how and where their functions mesh, and what they can count on from each other.

Custom is to plan from top down

The emphasis upon the subordinate's need to do the job in the way the boss wants it done has proved to be the primary value of vertical training, says Mr. Eastman.

In all training John Hancock gives particular attention to the supervisor, 1, to help him toward greater self-awareness—to understand how his actions influence his work group and their reactions influence him; 2, to get him to realize that, for most employes, most of the time, he is image and voice of the company; 3, to teach him to listen intently to what the other person is trying to tell him rather than to focus on what he is going to say next; 4, to recognize that people too often see just what they expect—they infer and interpret in accord with their own preconceptions rather than keeping an open mind toward the new, the different, the unanticipated.

Taboo in this training are such admonitions as "keep 'em happy," "treat 'em right" "just follow the Golden Rule." It is also made clear that the area of human relations is always sensitive, sometimes baffling.

The supervisor's curriculum is therefore geared to specific situations of the sort he is going to meet.

In the field of salary administration, for example, he is first given a manual which he has to study for a week, and then a question and answer lecture on its use. He then gets practice work-outs by means of role-playing techniques. Under the guidance of a moderator from the personnel office, five supervisors and a division manager typically act out and analyze various cases.

One reason John Hancock takes such pains in coaching for salary administration is that Mr. Eastman believes this to be "the most misused tool in too many company kits." It is, in his view, too often invoked merely to stop people from squawking rather than as an award for accomplishment and stimulus to effort. John Hancock prefers to accent merit, as against across-the-board increases (while retaining certain years of service increments) on the ground that if you give the same pay boost to two employes, one outstanding and the other ordinary, you blunt the incentive of one without prodding the other to improve.

Schooling the supervisor in salary administration has to be closely linked at John Hancock with work simplification as the bridge to cost control. In the first place, the company pays $17 million a year in salaries to its Home Office employes alone. In the second place, its overhead per office work station is not too far from the national average of about $3,000 a year, five per cent of it for space, heat, light, ventilation; three per cent for desks, chairs, machines; three per cent for taxes; 10 per cent for supplies and 79 per cent for operator salaries.

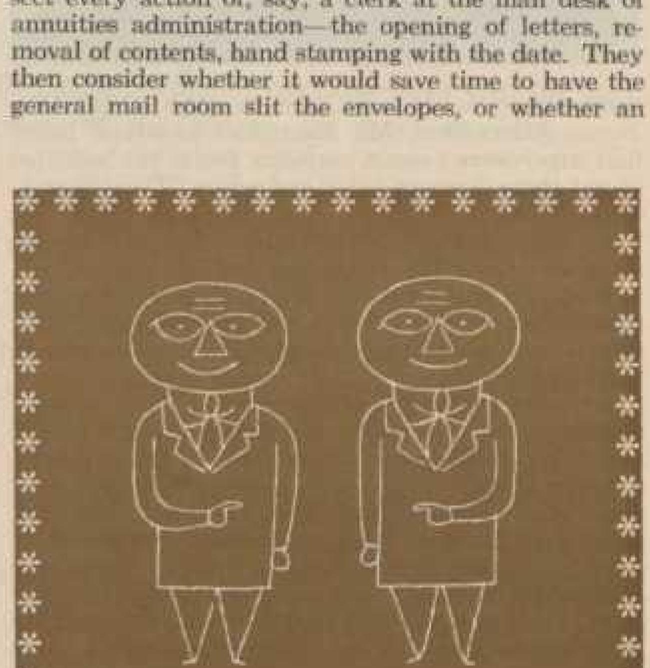
Company cost control specialists regularly conduct time studies on the number of minutes required to approve a claim, issue a policy, reinstate it, change the beneficiary, terminate it and the like. By putting a stop-watch on the measurable components within each task, they plot frequency distribution curves to arrive at a standard. They then prepare a quarterly report comparing the actual time spent against the standard.

The success of any such efficiency engineering depends largely upon the supervisor's attitude. He has to be sold on it, since vague misgivings still prevail that time studies, speed-up and policing to put on the pressure go together.

He therefore attends ten round tables on work simplification led by Roland A. Mangini, director of planning. Mr. Mangini first drills each panel of supervisors in the economic rationale of cost reduction. He points out that it makes it possible for the company to sell more insurance at lower rates, for the employe to benefit from the growth of the company in terms of his greater income, job opportunity and security. He defines work simplification as being, in essence, the "continuing search for better and easier ways to do all jobs—by working smarter, not harder."

He introduces them to the Flow Process Chart, basic instrument for the company's work simplification. The Chart contains five symbols; a circle for operations, an arrow for transportation, a square for inspections, a D for delays, an inverted triangle for storage. They comprise an ingenious shorthand for tracing through every phase in the cycle of an insurance policy from original application, to issuance, to payment to beneficiary.

Equipped with this shorthand, the supervisors dissect every action of, say, a clerk at the mail desk of annuities administration—the opening of letters, removal of contents, hand stamping with the date. They then consider whether it would save time to have the general mail room slit the envelopes, or whether an



Supervisors are interchangeable

electrical stamping device wouldn't be better than the manual type, or whether all the incoming correspondence should be stamp-dated. The objective is to instill in the supervisor a willingness to look freshly at every element in every operation to see what can be done to streamline or abolish it.

"The whole question of work simplification," says Mr. Mangini "is 90 per cent psychological and 10 per cent technical. The know-how itself is not too hard to get over. The supervisor can be taught the 20 principles of motion economy, to recognize fatigue factors, to make sure that the positioning of paper for the typist is at the correct height for eye travel. What really counts is the proper state of mind and the readiness to impart it to his crew."

To foster a proper state of mind has been especially difficult in another facet of the supervisor's function—

DRAWINGS BY CHARLES DUNN

Top man sheds tasks, has time to think

rating employes. In early courses on this subject Miss Nancy Concannon, Mr. Eastman's assistant, found that supervisors "would verbalize faults but hesitated to put them down in black and white. They liked to inform about promotions, but not about holdbacks. They were reluctant to discharge, and even to discuss an employe's shortcomings with her."

They had to learn that to be unduly soft or hard was equally harmful; that it reflected adversely upon their own emotional maturity, a weighty consideration in their advancement; that the company could not afford to settle for anything less than candor. After they are briefed on this score, they are guided through almost every conceivable combination of the 13 rating points: quantity of work, its quality, dependability, cooperation, office conduct, attendance, attitude, initiative, leadership, job knowledge, judgment, effectiveness in dealing with people in person, by phone or by letter as exemplified in case-histories compiled by the personnel staff. They rate and rate again, first separately, then in groups, arguing over final evaluations until a broad consensus can emerge.

They also ask such questions as "What good comes from talking about weaknesses when a person has great strengths—doesn't what he brings outweigh the faults?" and "When people have reached the limit of their abilities what should you do? We say to kid 'em along is dishonest, but isn't it just as bad to tell 'em that they're at the end of the line?"

To answer such queries, Personnel devised a voluntary, company-wide course in counseling. When it was announced, however, only 15 out of a potential 600 signed up.

"We fell on our faces," Mr. Eastman remarks, "because our semantics were wrong. We were too dumb to realize that everybody thought he knew how to counsel. So on a hunch we changed the label, and offered a course in 'advanced counseling.' That did it. It was the same course, but 510 out of 600 enrolled."

Subsequently, counseling instruction has been refined to embody more emphatically Mr. Eastman's views on its dangers as well as its values. He warns against the human propensity to pour out advice since it usually does more for the counselor's ego than to solve the employe's problem. He insists that counseling should be generally confined to tensions and dissatisfactions that arise from and on the job. Although he concedes that troubles outside the office can affect employe productivity, he draws a sharp distinction between those the supervisor can deal with and those he has to leave alone.

If, for example, a clerk's output declines because of worry over how to meet the medical bills for a father's heart attack, the supervisor, along with the division manager, can recommend a company loan to meet the financial emergency; but if her output declines because she is disturbed over whether or not to get a divorce, they can recommend nothing except perhaps to suggest that she might wish to consult a marriage counselor at one of Boston's social agencies.

If the employe prefers, she can always turn to a special personnel counselor who, in any interview, is not allowed to argue, to sympathize unduly, to spoon-feed solutions, to pass moral judgment. She is there to let the employe blow off steam, to clarify the problem in her own mind as a start toward doing something about it herself. If she appears to need psychiatric aid, she is sent to the Health Clinic, where the physician either gets in touch with her family doctor or refers her to a qualified therapist.

Miss Edna Fitzpatrick testifies as to the efficiency of the training. She was a senior clerk just promoted to assistant supervisor when the new program began.

"Then," she recalls, "they took the boss away during a temporary shortage, and I would have been completely lost if it hadn't been for those courses."

"One trouble with women," she remarks, "is their tendency to be tardy. Hair-do, make-up have to be perfect. About three months ago, I had the case of a fine worker who was late too often. When I called her on it she said, 'What difference does it make, it's only five minutes.' I had her sit down with me and we calculated the number of hours that would be lost to the company if all 5,000 of us were late as much as she had been. She'd never thought of it like that. She's been punctual ever since."

It is episodes like these which, piling up daily, do much to justify to Mr. Eastman and his colleagues in their trial-and-error forays along the frontiers of personnel practice.—HERBERT HARRIS

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JOB PRESSURE

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that you can be enthusiastic about.

"If that isn't immediately practical, you should make a special effort—in the ways which we'll come to in a minute—to develop extracurricular interests that will supply the challenge and the satisfactions you are missing in your job."

A secretary slipped into the room and deposited some papers on Dr. Felix's desk. He glanced through them briefly. One document apparently concerned a promotion and prompted a new thought.

"Promotions. That's where a lot of businessmen get into trouble. It is natural and desirable to go as far as you can in your field. But don't overreach yourself. Every man has his limitations; know yours and stay within them. Not all men are cut out to be corporation presidents. There is nothing more tragic—for the job or the man—than the spectacle of the one-quart executive in the half-gallon job. The success cult of modern business, the constant drive to get ahead and stay ahead of Charlie, is one of the main things that produces man-killing stresses. The fellow who keeps wangling promotions until he gets clear out of his depth will have to tread water furiously all the time. He won't be much use to his company and he'll soon wear himself out."

When your job is well within your capabilities, it is possible to follow Dr. Felix's next suggestion, which is:

Develop a pace to do your day's work, and, except in real emergencies, stick to it.

"The good distance runner knows that he can't sprint the whole route. He learns by experiment the pace that is right for him, that doesn't wind him prematurely. That leaves him with the strength to put on a finish-line kick. We all have crisis days, or weeks, when the schedule has to go out the window. But you can't operate on a crash basis all the time. Learn to distinguish a true drop-everything emergency from an everyday front office flap, and don't break your stride for the latter. Any intelligent boss should respect the subordinate who has the good sense to tell him occasionally: 'I'm sorry, I just can't get to that tomorrow, but I'll have it by the next day.'"

Don't waste today's energy stewing over yesterday's decisions.

"There are several ways in which you can minimize the strain of making business decisions. Most of the top executives I know have consciously or unconsciously developed

FRED J. MARDER

Taking that HOME? Don't

Life can be beautiful . . .

and your work can be fun

Don't lean on alcohol

Don't run a crisis factory

Find and ride that hobby

a credo, a set of fixed operating principles, which greatly simplifies their decision-making process. For example, if you sincerely believe that honesty is the best policy toward your customers and competitors—and I think it is—you can often resolve a problem quickly by ruling out all of the clever alternatives which you know are dishonest.

"Give each decision the amount of study and worry that its importance warrants. It's amazing how often a man will fret over a comparatively trivial decision longer than he does over one that can affect the whole future of his business. Once you have made a decision, go on to the next item of business. If you find out later that you made a mistake, and there's still time to correct it, by all means try to do so; but if the die is cast, and you are clearly past the time when worry will help, don't spin your wheels."

Develop the kind of personal relations with your staff that will make it possible for you to blow your top occasionally without wrecking morale.

"I don't mean you should throw an ashtray at your stenographer every time you get the urge. This is illegal. Nor should you be a continual office grouch. But it can have a salutary effect on your mental health if you feel free, once in a while, to give vent to some of the emotional steam that petty irritations build up inside of you. If, between times, you treat your people right, and let them know that you really respect them and their feelings, they will understand."

(Dr. Felix's secretary, who clearly thinks the world of him, assured us privately that he follows his own precepts in this regard.)

Don't take your business home with you.

"Of course, we all have to lug a briefcase home occasionally. But the man who does it every night is not an efficient administrator, even of his own time. The stress situation you endure at your office is tough enough on your health during a 40 or 50 hour workweek; if you constantly introduce it into the time which should be set aside for recharging your batteries, you are inviting serious trouble."

Remember that you owe some time—and vitality—to your family.

"Find a hobby or a project that you can share with your wife and/or your children. Common interests, shared enthusiasms, are the cement that holds a family together. Many a husband and wife have stumbled into tragic middle-age divorces just because the children have grown up and they find they have no interests left in common. They aren't really mad at each other—they just don't know each other any more."

Begin preparing now for retirement.

"I don't mean just buying annuities. Statistics show that the man who has been busy for years, and who just quits work and does nothing when he reaches retirement age, has a life expectancy of about two years. Now is the time to develop hobbies and outside interests that will contribute not only to your present relaxation but also will serve as a nucleus around which you can build a happy and useful life after you retire."

Community service can be a hobby, too.

"A lot of people have the idea that their off-duty activities, to qualify as relaxation, should be radically different from their daily work. But I've found that isn't true. Worrying over the budget of your church, or PTA, or civic club, is in fact a good change of pace from worrying over your company's balance sheet. Ev-

ery businessman has skills that can be put to good use in community service. Volunteering part of your time and talents for unselfish endeavors is a fine way to maintain your balance."

Take at least one good vacation a year.

"The bigger your job, the more break you need. A week-end holiday helps, but what you really need is to get away from it all completely now and then for a long enough time to refresh your mind and body. I think the average business executive should take at least four weeks vacation a year—either in one hunk, or in two sections of two weeks each."

Don't build all of your relaxation around alcohol.

"The thing to remember about alcoholism is this: You can develop a physical addiction to alcohol, just as you can to narcotics. Drinking to relieve nervous symptoms is as dangerous as Russian roulette."

Don't badger your doctor for tranquilizing drugs.

"I hear reports about a lot of businessmen going to their family physicians and practically demanding a prescription for some of the new tranquilizers that have had so much publicity. Now these new drugs can be very valuable—when they are used intelligently, to treat specific conditions, under the strict supervision of a doctor. But they are not 'happy pills' and they shouldn't be taken lightly. The American Psychiatric Association has issued an official warning that widespread use of these drugs to cope with common anxiety, nervousness and routine tensions is 'a public danger.'"

"I have one more thing to say.

"Strong and *practicing* religious convictions are a powerful contribution to emotional stability. I would never counsel any man to embrace religion simply because it would be good for his mental health. Such a faith would be superficial and insincere, a house built on sand. But I do advise that you think the matter through and decide what philosophy of life can give ultimate meaning to your existence.

"You can accept religious faith as the answer—as I have—or you can reject it; but you cannot safely sidestep a decision about it.

"I have never seen a really well adjusted person who had not resolved the question of his own religious beliefs." —LOUIS CASSELS

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ECONOMIC FUTURE

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around the White House calls him—invariably has the answer.

As might be expected, Dr. Hauge works closely with Arthur F. Burns, the chairman of the President's Council of Economic Advisers. In fact, he had a major role in bringing Dr. Burns to the job. Though Dr. Hauge had worked before the war on a National Bureau for Economic Research project headed by Dr. Burns, the two were barely acquainted. After Mr. Eisenhower's inauguration, however, Dr. Hauge was ordered to find some one to head the Council—"the ablest man in the country in this field of business stability," he recalls the President told him. Dr. Hauge checked with a number of his economist friends, and Dr. Burns' name led every list.

"I am proud to say I had more than anyone else to do with bringing Burns into the government," Dr. Hauge declares today.

There is some confusion as to where Dr. Burns' job stops and Dr. Hauge's begins, but since the two see eye to eye on almost every matter, this is not too important. In general, though, Dr. Burns is concerned with the economic situation, present and future. His agency is, as Dr. Hauge recently put it, "the economic intelligence center of the executive branch." With the help of a staff of economists and statisticians, he keeps the President informed on what to expect in the economic field.

Dr. Hauge, on the other hand, is more concerned with the day-to-day implementation of economic policy. His job is to see that the President has the necessary information and guidance to make the economic decisions required of him, to work with Congress and groups outside the government, and to do whatever other staff jobs the President assigns him. He and Dr. Burns meet periodically with the President and jointly brief him on the economic outlook.

Dr. Hauge's association with the President has probably been as long and as intensive as that of anyone on the White House staff. In fact, early in the Eisenhower boom, he probably knew more about the President's thoughts on national and international issues than the President himself. It came about this way:

After a Navy stint in World War II, including some rugged combat duty in the Pacific, Dr. Hauge went to work in the administration of New York Gov. Thomas E. Dewey. Drawing on his background as an economics instructor at Harvard and Princeton and as a budget officer for his native state of Minnesota, Dr. Hauge became chief of the division of research and statistics of the New York State Banking Department. He played a prominent role doing research and speech-writing for Governor Dewey in the 1948 campaign.

In the winter of 1951, Governor Dewey, Henry Cabot Lodge, Paul Hoffman and a number of other Republican leaders formed a small organization which grew into Citizens for Eisenhower and served as the nucleus of the draft-Ike movement. Since little was known at that time as to General Eisenhower's views on basic issues, the group decided to do some research.

Mr. Lodge had worked closely with Dr. Hauge during the 1948 Dewey campaign, and turned to him to do the Eisenhower research. By that time Dr. Hauge had gone into magazine work. Working week ends and nights he analyzed every available word spoken by General Eisenhower or written about him. He soon felt he knew the man intimately—if impersonally—and this saturation with Eisenhower at that time may help explain why Dr. Hauge is the only member of the White House staff who still calls his boss "General" instead of "Mr. President."

The two didn't actually meet until the General visited the Citizens for Eisenhower headquarters in June, 1952. Soon afterwards, Dr. Hauge was asked to join Ike's personal staff in Denver, went to the Chicago convention with General Eisenhower, and stuck with him all through the 1952 campaign—except for a brief spell when Ike's whistle-stopping train pulled out too fast and left him on the station at Fargo, N. D. (He caught up 60 miles later after a 90-mile-an-hour auto drive.)

After the election, he worked on Ike's pre-inaugural staff in New York, then joined the White House staff as one of the President's \$18,000-a-year assistants.

Dr. Hauge's close contact with President Eisenhower is easy to doc-

THE PRESIDENT'S daily decisions on economic matters require frequent sessions with Dr. Hauge

ument. Robert Donovan, in his authoritative "Eisenhower—the Inside Story," relates that early in 1955, the President, searching for a phrase to express his political philosophy, hit upon "conservative dynamism." When he told Dr. Hauge he was going to use this phrase in a speech, Dr. Hauge suggested it would have a better ring if it were transposed to "dynamic conservatism." And that's the way the President has used it ever since.

One of the few ornaments on the President's desk originated with Dr. Hauge. It's a small wooden plaque bearing the motto "Suaviter in modo, fortiter in re"—"Gently in manner, strongly in deed." Dr. Hauge says he came across the phrase while reading and, thinking it characterized the President, sent it over to the White House. A short time later, he found it had been made into a plaque.

Dr. Hauge becomes almost lyrical in expressing his admiration for the President.

"General Eisenhower," he says earnestly, "has an extraordinary combination of intellectual curiosity and energy, and that's a combination that can accomplish almost anything."

He relates that when he first met General Eisenhower, he found him "well informed on international economic matters and on the economics of mobilization, and, thanks probably to the influence of his brother Milton, on agricultural matters. He was weak in some areas in which he'd had little opportunity to inform himself—the financial problems of the government, central banking, labor legislation, and the like.

"But now he can go all the way down the road in any discussion, no matter how complex the subject."

While admiration for the President is universal among the White House staff, Dr. Hauge is, as one presidential aide puts it, "more starry-eyed than most of us." He has been known to emerge from a session with the President, return to his desk and, before getting back to work, stare off into space for a while and then declare in awed tones: "The President is a truly remarkable man."

Dr. Hauge himself is a fairly remarkable fellow. On one wall of his office hangs a flambeyant Picasso rooster, representative of the best in modern, sophisticated art. On another hangs an austere motto from his father, a Lutheran minister in Hawley, Minn.: "Eat Your Own Bread. Obey the Law. Trust in God."

The combination may seem incongruous, but it symbolizes well the

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continued

mixture in Dr. Hauge's personality of old values and new interests.

Dr. Hauge is a robust 200-pounder, just over six feet tall. He has blue eyes, a good growth of brown hair combed straight back, and a high forehead. When he gets immersed in his speaking, he looks startlingly like a heavier Billy Graham. He never curses, rarely uses slang, and resents off-color stories. The first impression many people get from him is that of a reserved, rather prim schoolteacher.

But continued contact shows a person of wide scope and great warmth. Having had a hard time himself finding a house when he first came to Washington, he has assiduously helped later comers in their house-hunting. He is the kind of person to whom, on longer acquaintance, people start telling their troubles. A prominent punster, he has a generally sophisticated sense of humor. As he gets to know people better and becomes more able to relax with them, he also gets more and more eloquent and it soon becomes easy to see where he gets his reputation as one of the most articulate men at the White House.

The Hauge interests outside the White House are all intellectual ones—he is one of the few White House staffers who still hasn't taken up golf. Instead he enjoys reading, listening to fine music, studying church and cathedral architecture, and collecting modern paintings. In his recreational reading, he prefers the nonfiction of "thoughtful persons, to distill experience into a brief and useful lesson for me." He particularly likes writers who go in for epigrams and pungent sayings. A Bible is on his office desk, and he finds time to read in it every day.

Despite these sedentary hobbies, he has abundant energy—in fact, an excess. His hands are in ceaseless motion—playing with the letter-opener on his desk or fiddling with the silverware at table, drawing graphs in the air to illustrate points as he speaks. He has, as Mrs. Hauge describes it, "the habit of work." His office days begin at 8:30 a.m. and end at 7 p.m. on weekdays, 3 or 4 on Saturdays. He usually works in the White House car on his way to and from the office, and every night a battered dispatch case goes home with him for a session at the desk in his upstairs study.

When he and Mrs. Hauge entertain—they live with their five young children in a comfortable house in the Cleveland Park section of Washington—their guests are usually Mr. Hauge's close associates in the Administration.

Besides his fine ability with words and his broad economic background, Dr. Hauge has many other qualities that make him invaluable to the President. One such attribute is a precise turn of mind that keeps everything in proper order. Just as he is uncomfortable in a room where the pictures are not straight on the walls, he is uncomfortable with an untidy thought or phrase. A man of method, he is addicted to carrying around small file cards on which he jots down statistics or thoughts or sayings that catch his fancy and that he thinks he may someday be able to use. He puts these away periodically in a desk drawer, then pulls out the appropriate cards in advance of a meeting or speech where he thinks he may need some ammunition.

Another valuable quality is his practical approach to economic matters. His service in the New York State Banking Department and in the magazine field have made him less doctrinaire than most economists; a high White House official describes him as a "unique combination of long-hair thinker and astute practical politician." For example, in the farm legislation fight early this year, Dr. Hauge was one of the administration officials most prepared to make concessions on minor items to save the basic flexible program. Again, though he is a firm free-trader, he has been willing to make concessions in order to avoid extreme protectionist legislation.

Still another example both of his practical bent and his capacity for detail occurred when the President kicked up a storm by describing TVA expansion as "creeping socialism." Shortly after this, Dr. Hauge sent the President a note declaring that this phrase had been "the hallmark of the old guard Republicans for years under Roosevelt." He told the President that the Republican "New Look" under Eisenhower should have its own idiom, free of such associations. The President jotted at the bottom, "Yes, D. E."

Dr. Hauge helped insure his reputation as one of the Administration's economic seers back in early 1954, when the economy seemed to be slumping and when demands were multiplying both in and out of the Administration for a slam-bang government pump-priming program. Dr. Hauge and Dr. Burns stood fast against these demands; they insisted that the economy was merely "catching its breath for a new advance." They maintained that all that was required was indirect government measures—such as the more liberal

credit policies then being pursued by the Federal Reserve Board and the investment tax incentives then being enacted by Congress.

Doctors Hauge and Burns were proven right, for the economy shortly came booming back. "I think it is a dangerous illusion," Dr. Hauge has declared, "to suggest that we can eliminate completely the minor swings that reflect the free decision-making process."

He feels that the economic outlook for the rest of this year is "generally promising." He believes the third quarter, despite the recent steel strike, will turn out far better than had been expected earlier in the year.

"Farm income has firmed up," he declares. "Autos are squaring away and the new models will soon be out. Housing is still not too good, but over-all construction is extremely favorable. Consumer spending is buoyant, international trade is high and still rising, and expenditures for plant and equipment are fabulous."

One of Dr. Hauge's pet subjects is the new conservative philosophy he espouses, and which goes under such various labels as "bold conservatism," "dynamic conservatism," or "Eisenhower conservatism."

He asserts that it has been pretty well established here and perhaps even more so abroad that the conservative approach to economics provides a sustained high level of economic activity. "The extreme New Dealer is quite obsolete now," he declares. "He is still living in the 1930's. The overwhelming majority of Americans believes in the traditional values."

Dr. Hauge thinks that the New Deal was ultimately proven a failure in its efforts to bring about an economic revival; it took a war to do that. He likes to back up his contention with these figures:

"In 1939, there were 9,480,000 unemployed—more than 17 per cent of the total work force—and expenditures of $5,500,000,000 on new plant and equipment. In 1955, there were 3,600,000 unemployed—only four per cent of the work force—and $28,700,000,000 spent on new plant and equipment."

"Even after correcting for price rises," he goes on, "those figures provide a clear answer as to what was wrong under the New Deal. That $28,700,000,000 in new plant and equipment is the key to our advance. It's a commitment to the future, a recognition that this economy is going to grow beyond present demand. If that figure ever starts to drop, we're certainly headed for unemployment and real trouble."

Dr. Hauge also has some specific views on prosperity. "We need," he says, "not just prosperity but a healthy prosperity not marred by speculative excesses. It is not bought by cheapening the value of the dollar or souping up the economy by easier credit. People must understand the relationship between what they put in and what they get out.

"A developing economy is not only prosperous but healthy and competitive. If we try by governmental action to abrogate the market system or prevent the forces of competition from functioning, we have a serious question as to whether we are helping or hurting."

Dr. Hauge sees as one of the problems of our day "the disposition to believe that the government can do anything, a tendency to remove the need to be self-reliant.

"We must see to it that the government acts in a manner that will sustain the operation of our market mechanism—the competitive system. If the day ever comes when right economics are inconsistent with equity and social justice, we'll be in a bad way."

The theme of change appears throughout Dr. Hauge's discussions of economic philosophy. We've got to foster it in order to grow, he maintains, differentiating the new conservatism from the old, which he considers hostile to change.

"One of the great sources of this impulse to change and grow," he says, "is the $5,000,000,000 yearly public and private investment in research and development. And one of the great purposes of the government is to permit change to occur. That we have permitted change is the great glory of America."

Dr. Hauge stresses that a free competitive system does not rule out as undesirable or bad such programs as social security, unemployment insurance, farm price supports, and stock regulation.

"These," he declares, "are desirable steps to give stability and at the same time permit change, avoiding rigidity. They contribute to the effective operation of the system."

It is Dr. Hauge who has given the definitive statement of the Administration's economic philosophy. This he did in a speech last fall before the Commonwealth Club of California in San Francisco. It is a speech carefully kept on file and referred to frequently in White House offices.

In that speech, the concept of "dynamic conseravtism" or "Eisenhower conservatism" was precisely and brilliantly detailed by the man who, next to the President, probably had most to do with the formulation.

The hallmark of the Eisenhower conservative, Dr. Hauge said at San Francisco, is the belief that there are

ECONOMIC FUTURE

continued

certain basic factors to which this country owes its phenomenal material growth, and which therefore must be conserved for the present and future generations. He went on:

"First, he (the Eisenhower conservative) wants to conserve the system of free markets and private initiative as the best means yet devised to plan and organize the production the people want. He is not much taken with the idea that government price-fixing, wage control, rationing, production planning and materials allocation can do the job better than the free market system—except, of course, in time of war. . . . To the Eisenhower conservative, our kind of private economic organization is the key to the fabulous material well-being we enjoy. To him, business—little, medium-sized or big—is a good word, because business is people. . . .

"Second, the Eisenhower conservative intends to conserve our tradition of incentive and reward. His is a deep conviction that in the economic race every man should have an equal place at the starting line, but he knows, too, that it has never been part of the American tradition to assure every man the right of breasting the tape at the same instant. . . . In a word, he does not confuse equity with equality. . . .

"Third, the Eisenhower conservative wants to conserve the integrity of the people's money. He is cognizant of the thievery and worse that price inflation visits on a citizenry which is forced to undergo it. . . .

"Fourth, the Eisenhower conservative seeks to conserve the market mechanism when the government must act to avert a depression or inflation. Within the rules of the game embedded in our laws, his goal is maximum freedom in economic activity by individual Americans. . . .

"Fifth, the Eisenhower conservative seeks to conserve and strengthen economic ties among free nations. He knows that we do not produce everything we consume, nor do we consume everything we produce. He believes in a growing international trade and defends the principle of competition, not only within national boundaries but across national boundaries. . . . A world-wide system of free currencies and of freely flowing, nondiscriminatory trade, designed to let traders buy and sell where market considerations dictate, is the natural counterpart abroad of a free economy at home."

But the Eisenhower conservative, Dr. Hauge hastened to add, "is no standpatter. He knows that history does not stand still. . . . He recognizes change as the law of life and adjustment to it as the condition of life. . . . His goal is the creation of an environment in which the traditional forces of our free choice economy are strengthened."

Dr. Hauge then went on to state the beliefs of the Eisenhower conservative.

"To begin with," he asserted, "the Eisenhower conservative believes that we as a people must recognize that, like any other system, economic freedom entails certain human hazards and costs. . . . The Eisenhower conservative is determined to support and strengthen effective measures to minimize these human costs of freedom. He strongly encourages every possible effort toward this end that can be undertaken privately and through voluntary association. Similarly, he regards as essential and seeks to improve such government programs as unemployment insurance, social security, housing, collective bargaining, bank deposit insurance, securities regulation and agriculture price supports. . . .

"Next, the Eisenhower conservative believes that government budget policy must be directed not only to the economical use of tax money and the balancing of outgo against income, it must also be geared to the goal of maintaining the stable growth of the economy. . . .

"Further, the Eisenhower conservative believes that we must keep the economy dynamic. To that end, he believes there must be vigorous anti trust law enforcement to prevent monopoly power from exerting its corrosive influence. To make equality of opportunity for all a living reality and not merely a camouflage for inequality, he vigorously supports educational and vocational programs and fights unremittingly against discrimination of all kinds in order that the rich vein of ability and creative genius, wherever it runs among our people, may be tapped. Appropriate government support for research and development activities must be provided to help produce the seed corn of economic progress. Likewise there must be tax legislation favorable to that type of expenditure by private business so that more jobs may be created."

That is the blueprint for the economic future that the Administration's economic architect has drawn. And he declares that in all these areas, "the Eisenhower conservative has found strong leadership from the President, with whom he believes that these efforts are right and sound in the interest of all."

—ALAN L. OTTEN
& CHARLES B. SEIB

POLITICS

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Money-raising for political purposes brings up many questions, just as does money-raising for the Community Fund, for hospitals, and for other broad-purpose solicitations.

People of business who are willing to contribute for a given cause immediately want to know:

▶ How can I know whether I will be giving enough, too much, or not enough?

Political solicitations are increasingly being made by each of the major parties with a combined local, state, and national appeal, on an agreed percentage division basis. The local money goes to promote the election of the party nominees such as county candidates—sheriff, prosecutor, county commissioners, and others; another portion promotes the election of the state ticket—governor, attorney general, state auditor, etc.; a third portion is for the national campaign.

For the businessman and the business firm employe who decides that he is willing to contribute, but wants a measure of equity, there are formulas that may provide some guidance.

Congressman John M. Vorys of Ohio has said that a standard frequently suggested in Washington is five per cent of the income tax paid by the individual on his prior year's income.

A prominent Cleveland industrial leader, active on one party's affairs and finances nationally, follows this practice:

When a man is employed by his corporation in a management level capacity, he is informed that he will be expected to share in the activities and financing of his own chosen party, and that the suggested schedule of his financial participation should be:

"For the younger and shorter service executives in training for advancement, three-fourths of one per cent of salary; for those in the middle and near-top management brackets, one per cent of salary; for key or top executives, up to one and one-fourth per cent of salary."

Business people with practical experience in local and state political financing would say that these represent quite high standards. They approximate the levels observed by men who are energetic in political matters, but party money-raisers will admit that the average business executive has not yet come to accept these as measures of his proper contribution to his party's finances.

The average young man of 35 or under is regarded as doing well when

POLITICS
continued

he gives from $25 to $50, either for the use of an individual candidate or to a combined local, state, and national solicitation. Although an individual may contribute as much as $5,000 each to as many political candidates or committees as he chooses, such gifts are relatively few.

The average active business executive feels he has done his share when he contributes between $100 and $300. Probably the bulk of present-day local political giving rests upon subscriptions ranging from $50 to $300.

Those people who give from $300 to $500 in any year in their local community are highly regarded, party-wise, locally.

Those who give more than $500 regularly usually come to exercise substantial influence within party councils.

How to take part

Probably the most simple and most often overlooked fact is that the county chairman of each party is the key individual in politics, locally, and no politically concerned businessman should fail to keep one or both within the orbit of his personal contacts. He should be consulted concerning finances, candidates, and attitudes on issues at the polls.

A political axiom is that national elections are not national at all—they are made up of the composite of all the little local elections.

So the businessman and business employe who decides to take a hand in politics should—in fact, almost must—start right at home. His greatest personal influence is in his own home; next, in his own precinct; next, in his own community.

The beginning point is with a personal decision to be active and a willingness to start in politics—as in business—at the bottom of the ladder. The man of business who is content to start there will learn more and gain more satisfactions from the experience.

The jobs he may be asked to do will be many and varied. They will challenge the special skills that a businessman can bring to politics.

He may have opportunity to make public appearances, organize and help a committee supporting a candidate, party or special issue; prepare personally or with others letters, pamphlets and sample ballots.

He may work as a party official in a precinct, ward, county, state or national level.

In doing this he can help create an atmosphere of respect, instead of contempt and disdain around political activity.

His example will encourage others—including perhaps his own employes—to participate in politics, perhaps even run for office.

The 1956 tactics of the leaders of organized labor are worth noticing

because they are the product of growing experience.

The merged American Federation of Labor and Congress of Industrial Organizations—working through its Committee on Political Education (COPE)—is concentrating in 1956 upon local and state elections and issues.

Most of organized labor's announced political goals seem directed at enlarging the central government's role in economic affairs, with corresponding reduction in the freedoms left to companies and to individuals.

But labor's political leaders are moving to achieve their goals through penetration of and influence in local and state channels.

For those who fear labor's reach for total power in government, the prescription of personal work in political affairs and personal money-giving is indicated.

The order of importance: in his own home, in his own business firm, in his own block (neighbors) or precinct, in his own community. In future years, his participation then can grow solidly.

—HERSCHEL C. ATKINSON

REPRINTS *of "Business in Politics: 3 Ways to Get Results" may be obtained for 5 cents a copy or $4.50 per 100, postpaid, from Nation's Business, Washington 6, D.C.*

FIND MANAGERS

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head man in the biggest company—is curious about a job opening, and flattered by the realization that he is being considered.

"We've learned something else, too," says John E. Struggles, partner in Heidrick & Struggles. "Anyone will make a job change if the offer is attractive enough. Money alone may not be attractive enough today."

If the prospect shows genuine interest, the recruiter follows up the telephone call with a letter outlining the position available, its responsibilities, the salary range, and other pertinent facts. He may ask to visit the prospect's home, to talk to him and to his wife. The next move ordinarily is made by the prospect. He either tells the recruiter no or asks for more information. In the latter case, the recruiter—acting as intermediary between the client and prospect—may arrange a meeting between the two parties.

Most recruiting organizations say it's the exception, rather than the rule, when the first candidate they come up with proves to be the man hired. It usually takes two or three candidates to hit the mark.

The type of individual who puts an executive recruiter on point is one who, in almost all cases, already has a job and is happy where he is.

"Happy, that is, until we get hold of him," says one veteran recruiter.

The point is that the recruiters seldom waste their time with the man who is out of work, or the man who is misplaced and is starting to put out feelers. It's also a good bet that the man whom a recruiter approaches has worked in more than one organization. The reasoning behind this is that a one-organization individual finds it difficult to adjust to a new situation.

Indecision is the biggest headache the recruiters face. The client firm may indicate that it likes and wants the candidate, then, when a deal appears near, suddenly decide that it wants to look at more prospects.

Another headache is the salary. Many recruiters find that the client firm wants too much for what it is willing to pay. If this attitude is detected early enough, the average recruiter will drop the client and call off its search.

Still another complication, from the recruiters' point of view, is the fact that the search problem, by the time the recruiter is called in, has reached the stage of being a conflagration. Finding good job candidates takes time, the recruiters say, and an unrealistic deadline makes the search extremely difficult. They claim they are 85 per cent successful—if given enough time.

The average executive search takes between 60 and 120 days.

The recruiters use different formulas in charging for their service. A common practice is for the recruiter to set a flat fee in advance, take two thirds of the total to start, then bill the remainder on a monthly basis. If, after four months, the desired prospect has not been found, billings stop until the man is hired. Then the client is billed for the rest of the fee.

Another charge formula for the recruiter's service is 20 per cent of the candidate's first year's base pay, plus expenses, or $2,500, depending on which is greater. If the recruiter fails to find a job candidate, or if the company names its own man, it is customary for the recruiter to charge for his services on a per diem basis—$150 being the average charge. The job candidate is never charged.

How much business the recruiters do is not known. It is growing rapidly, however, and most people in the field feel that recruiting can fairly be described now as big business.

In its ideal form, the executive search by an executive recruiting firm is more than gumshoeing. The searcher becomes part of the management team. He counsels the client firm on the compensation which a particular job deserves, the allocation of job responsibilities, the type of experience needed, and other factors. Most important, he lifts from the company's shoulders the burden of searching, screening, evaluating and wrangling with an army of job candidates. END

Recruiters say anyone will make a job change if the offer is attractive enough

YOUR STATE MAY BLOCK NEW ROADS

Nation's multibillion highway building program is all set to get started—but here is where it could run into trouble

THE NATION needs one more essential element if it is to carry out what is called the most ambitious highway undertaking since the Roman censor Claudius began building the Appian Way in 312 B. C.

We have the knowledge, the materials, the plan and the desire.

Since last June 29 when President Eisenhower signed the near-$28 billion highway bill, we have had the money—or the means to get it.

But one big hurdle remains.

We have to improve the inconsistent, confusing, and often archaic, or nonexistent highway laws under which the road planners are laboring.

Unless these are corrected trouble is certain in developing the hoped-for high-grade national highway network.

Let's look at a few examples:

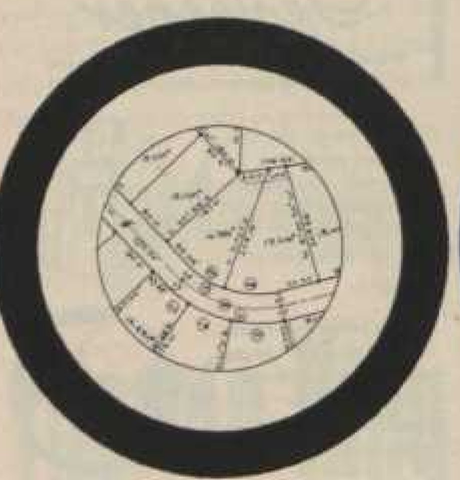
► One of the most strategic of all U. S. highways is that which runs west from Philadelphia, through industrial Pennsylvania and Ohio to Indianapolis, St. Louis and on to the West. If a new expressway along this route suddenly encounters a stubborn Illinois farmer who declines to negotiate for a right-of-way across his farm, completion might hang fire for as much as four or five years because Illinois does not permit immediate possession of land condemned by the state; it must be first adjudicated and proper compensation paid. Moreover, Illinois makes no allowance for precedence in court proceedings for such cases. And the Prairie State is far from unique in adhering to this kind of law.

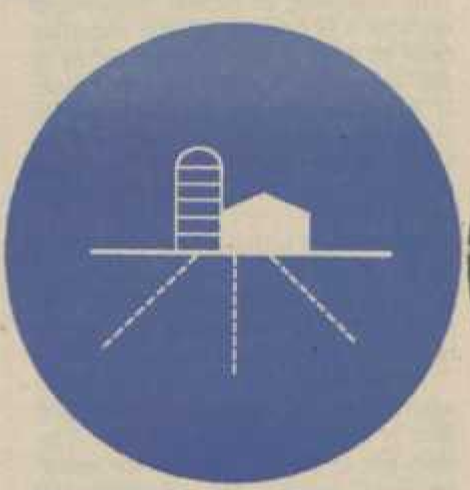
► Assume an expressway is due for development between Atlanta, Ga., and Miami. Florida has authority to condemn or buy land for future use. Georgia has no such specific authority. So Florida acquires the needed right-of-way up to the state line, but Georgia, uncertain of its power, does not. By the time the expressway is ready for construction, land values along the projected right-of-way in Georgia might rise to such a point that the state cannot afford to go ahead with the project or can do so only at greatly increased cost. This, too, is a common situation.

► Assume that an east-west expressway crossing Texas is scheduled to run through Fort Worth or Dallas. Access is planned only within a mile of the city limits. Merchants protest that this will substantially cut their business. So an argument ensues over who has highway jurisdiction in this instance, the state or the locality; and since Texas law on the matter is not clearly defined, the project is indefinitely delayed.

► Assume that another highway project to run from Cleveland, Ohio, to Wilmington, Del., reaches the Ohio-Pennsylvania line. Pennsylvania is limited by its highway code in regard to the width of the right-of-way it can acquire. Federal aid specifications for this area require a minimum of 250 feet, but state law permits a maximum of only 200 feet

TROUBLE SPOTS AHEAD





Acquisition of land

Can your state condemn land for future use? If so, can the highway agency get money for more than present needs?

Methods of acquisition

One big stumbling block is the slow, cumbersome condemnation proceeding. New York has possible solution

Control of access

Limiting access to highspeed roads creates most controversy and the trickiest part involves three legal tangles

for the type of highway planned. The program must wait for the state to bring its law into line.

► Assume a situation where Colorado, in collaboration with the federal government, plans to construct connecting routes from relatively isolated areas to an existing Boulder-Denver toll road. Uncle Sam's share of the money is available, but Colorado has a legal debt ceiling. If this ceiling already has been reached, special legislation may be needed.

These are but a few of the instances in which existing legal deficiencies or omission may cause trouble. Others can be found in such fields as road system classification, contracts, roadside regulation, parking authority, construction and maintenance, drainage, budgeting and accounting, traffic engineering, highway establishment and abandonment, location and design, landscaping, public utility reimbursement, and so on.

Many people, of course, have been aware of these legal stumbling blocks for years. Special studies and programs designed to alleviate them have been under way for some time by the various state highway departments, legislative advisory groups, the U. S. Bureau of Public Roads and a number of private research organizations.

Perhaps the most extensive study being undertaken on a national scale, however, is that begun several years ago by the Highway Research Board at the request of the American Association of State Highway Officials.

The Highway Research Board is a part of the National Research Council and the National Academy of Sciences. It is a private, nonprofit group, but is chartered by Congress and acts in a quasi-official capacity as adviser to the United States government.

In making its survey of the general field of highway law, the Board has appointed a special Laws Committee composed of 20 experts from all parts of the country. This committee, in 1954, began pulling together all state and local highway law with the object of identifying the trouble spots which might hinder a national road-building program. Its reports, just beginning to come out, will doubtless shed a great deal of light on what needs to be done, legally speaking, to smooth the way for the new highway program.

It is possible, nonetheless, to get a preview of the legal snarls that must be disentangled, together with possible ways of going about it.

To begin with, deficiencies in existing laws must be correlated with individual engineering and financial needs to give lawmakers in the 48 state capitols a relatively complete picture of their highway problems.

This leads to what, in the eyes of highway experts who are trying to get a national perspective, is even more crucial: a new nonprovincial way of thinking about roads.

In other words, as lawyer, legislator and judge go about the business of modifying or building highway codes, it will be essential that the highly mobile character of present and future America be kept in mind. The country's highways must now serve one national community as well as its subdivisions.

At present there are more than 35,000 highway agencies in the United States—federal, state, county, city and town. Most of these function independently and are responsive to different authority by law.

Obviously, this means that the problem of intergovernmental relations is one of the most severe that the new highway program faces.

Or, as one highway lawyer puts it:

"The mere existence of this many separate highway jurisdictions, all of which have their roots in law, emphasizes the need for legal streamlining to permit them better to coordinate their efforts. The time has come to tailor the law to our needs rather than let our needs go unmet because of legal shortcomings."

It is not solely a matter of federal-state cooperation, but of interstate and intrastate coordination as well. Local road authorities must recognize themselves as component parts of state and national systems—and vice versa—and respond to these needs as well as their own.

In many cases this will require considerable revision of the law. For example, in some jurisdictions the state highway agencies, under existing codes, have no authority to consult with local road agencies on common problems or to lend so much as a single truck. County systems may be operated and maintained without consultation or contact with those running the state systems. There

(Continued on page 100)

Classification of systems

New route that uses primary road in one state, secondary in another may run into some jurisdictional difficulties

Debt limits & finance

States must add $2 billion to U.S. $25 billion for construction. Conflicting limits may require more flexibility

Federal aid

Like other federal contributions, U.S. road money is tied to conditions. States may have to conform to them

In Recognition of Achievement

Real achievement deserves wide recognition—particularly achievement that contributes to the public good.

The Chamber of Commerce of the United States has therefore established an annual program of National Recognition Awards . . .

▷To honor those business organizations and firms that make a notable contribution toward community improvement and toward strengthening free enterprise; and

▷To encourage wider use of tested-and-tried methods for building better cities and a better economy—a better country in which to live and to turn over to the generations of the future.

The National Chamber presents its awards in five categories:

I. ECONOMIC UNDERSTANDING PROGRAMS

Open to Business Firms—Awards are made for outstanding achievement in building better employee understanding of the American profit-and-loss system.

Open to Chambers of Commerce—Awards are made for outstanding achievement in building better public understanding of the American profit-and-loss system.

II. CONGRESSIONAL ACTION PROGRAMS

Open to Chambers of Commerce—Awards are made for outstanding achievement in generating informed and effective action by local business men on important national legislative issues.

III. FIRE SAFETY PROGRAMS

Open to Chambers of Commerce—Awards are made for outstanding achievement in reducing fire losses—of life and property—by carrying on an enective, year-round fire safety campaign.

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Open to Chambers of Commerce—Awards are made for outstanding achievement in conducting a well-balanced and productive program of work, resulting in community improvement, organization improvement, business and industrial growth, and citizenship development.

V. ASSOCIATION ACHIEVEMENT IN THE PUBLIC INTEREST

Open to Trade and Professional Associations—Awards are made for outstanding achievement in carrying on association work which contributes to the social, political or economic welfare of the public at the national, regional, state or community level.

National Recognition Awards for the year 1956 will be presented at the National Chamber's 45th Annual Meeting in Washington, April 28 to May 1, 1957.

Write today for free booklet, "The National Chamber's Annual Awards," containing complete information about the contest. In your letter, be sure to state the category, or categories, in which you are interested.

CHAMBER OF COMMERCE OF THE UNITED STATES
Washington 6, D. C.

Working Creatively for the Good of Business and for the Betterment of the Country

Materials for Study—FACTUAL MATERIALS which the National Recognition Awards program brings together—case histories, successful programs, and information on procedures—are classified and preserved at the Chamber's headquarters in Washington, and are available to organization executives and business leaders for their use and guidance.

may be no legal requirement whatever that urban routing of through traffic be determined in the light of state or federal needs.

In some cases state highway laws are in such a hodgepodge that roads become functionally obsolete through sheer uncertainty of what the codes permit. Michigan, which has recently been overhauling its law, had developed a highway code consisting of more than 100 separate statutes and 1,000 sections, some of them nearly 70 years old. Many states are still in that plight.

Most of the basic legal problems facing the big highway building program can be classified in one of three ways. They are primarily problems of:

1. ***Property and individual rights***
2. ***Authority and jurisdiction***
3. ***Financing***

Actually, these three continuously overlap. Difficulties arising in one field usually extend into the others. But the following are the major trouble spots.

Acquisition of land

Many problems exist here.

Perhaps the most important arises from the fact that only about a third of the states have specific authority to acquire land for future use. All states, as sovereign powers, can condemn land for public purpose upon proper compensation, but this power is normally exercised when the need is immediate. Without statutory or judicial authorization the purchase or condemnation of land for future highway rights-of-way may prove troublesome. This can lead to delay as well as marked increase in highway construction costs.

Another difficulty lies in the fact that some jurisdictions are authorized only to acquire easements across property, rather than complete title to the land. This means that, if the highway department changes its plans, the cost of acquisition is lost.

Some states can buy land for future use, but cannot condemn it for that. Some can buy only unimproved land, but not land in developed areas. Some must begin actual construction on acquired land within a given period or relinquish the property. Some have no authority to dispose of unwanted land in case a shift in population or land use requires abandoning original plans. Some highway agencies, although they may have authority to acquire land for future use, are allocated money only for construction purposes or the acquisition of land for present needs.

In still other instances, cities and townships may have authority to acquire land for future use while the state does not.

Methods of acquisition

In many jurisdictions the procedure of acquiring needed rights-of-way is, by today's standards, obsolete. Condemnation proceedings are often slow, cumbersome, and must await a jury trial and an award before the highway authority can take possession.

Immediate possession, most highway experts think, is essential if the new highway program is to proceed at anything like the pace forecast. They point to the New York law as an example of what is likely to be needed. There the state makes a survey, files plats with the counties concerned, together with proper notice of intent to condemn. At this point, roughly speaking, title vests in the state and the details are worked out later.

It is true that the new federal aid bill permits the federal government to take immediate possession if the state requests help. But most lawyers feel that the better practice is to keep eminent domain proceedings on the state level, both from a governmental and economy viewpoint.

Control of access

Probably no part of the highway picture creates more controversy than limiting access to modern expressways. Yet this matter reaches into the heart of the new highway program, particularly in regard to the 41,000 mile Interstate System. [NATION'S BUSINESS, July, 1956.]

Much of the Interstate System is designed to handle the high-speed through traffic, which means that new expressways must have carefully controlled access to become a part of it. That is, entrances and exits will be few and designed to avoid cross-highway traffic.

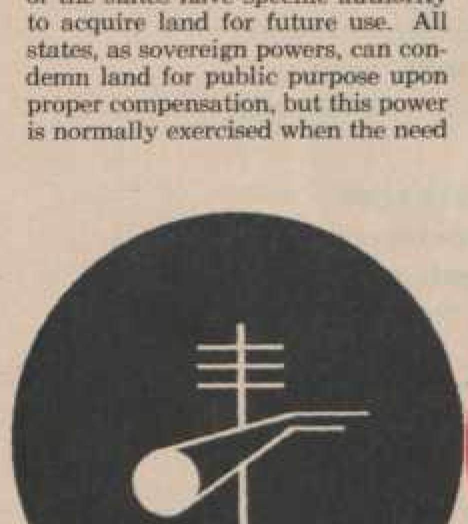
But controlling highway access is not simple.

Aside from objection by commercial interests which may look on limited access with disfavor, many highway laws are inadequate to assure controlled access.

Some jurisdictions have no authority to control access in all necessary cases. They may have it for new routes, but not existing ones.

In still other states, municipalities have no legal way to require the highway commission to consider their interests in scheduling new controlled-access highways. Yet this is highly important from many standpoints because an expressway may make profound changes in the economic and social life of cities and villages it approaches. Conversely, some highway authorities have no definite way to establish and maintain the frontage roads which may be mandatory in cases where adjacent land has been highly developed.

The trickiest problem in this area, however, involves the property rights of those whose land abuts the controlled-access highway. It is a well established legal principle that these



Public utilities

Who will pay to relocate or build new power lines, gas mains and other facilities? Laws make solution difficult

Roadside facilities

Automobiles must stop sometimes. Who will say where they can—and where one authority begins, another ends?

property owners are entitled to thoroughfare access, air, light and view. These cannot be taken away without just compensation. The state, on the other hand, has the duty of providing a good highway system in the public interest and, of course, has powers of eminent domain.

At least three legal tangles result from this situation.

One is the question of whether the state, as part of its eminent domain power, has authority to acquire rights of access as well as land. The law in most states is silent on this.

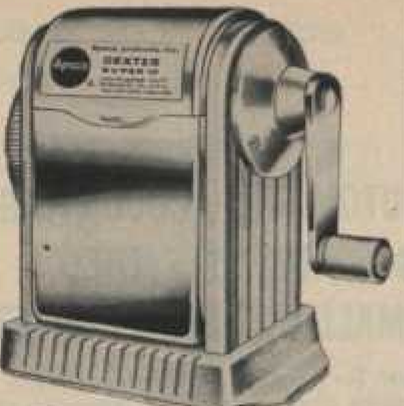
The second question is how to determine when an abutting property owner has been deprived of his access rights. If, for example, the owner must travel an additional mile to get on the expressway, he has probably not been deprived of his access rights in such a manner as to warrant compensation. If he must travel 15 miles farther to get on the highway, he may have been legally deprived of them. In this matter, the law generally remains to be made.

The third question relates to the amount and kind of damages for which highway authorities may be liable when abutting property owners sue. In cases where an acquired right-of-way severs a single piece of property, damage may be so great as to make it advisable to buy the whole property—if the state has that authority. What seems certain is that, as new expressways approach urban areas where land values are high, more suits will be brought. This is something state legislators may want to think about in writing new highway law.

Other access problems also exist. Expressway laws in some states, for example make no provision for more than a single type or design of superhighway where several may be needed as a guide to highway administrators. In some jurisdictions the highway commissions have authority to condemn and acquire private land, but not public land; this may mean interagency squabbles and perhaps a more devious and costly routing of new roads. Finally, where necessary land or access may be held up by litigation, there is usually no way to speed up trial; in fact, only seven states provide for this sort of thing.

Classification of systems

In most parts of the United States highways are divided into various systems. These may be classed as primary, secondary, etc., or they may be designated state, county and municipal. Often the responsibility for design, construction and maintenance of these systems is totally uncoordinated. Moreover, the allocation of funds for them may also be



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NATION'S BUSINESS
1615 H Street, N.W.
Washington 6, D. C.

Will a bypass hurt your business?

STEPS you can take to protect your interests if new highway construction bypasses your business are told in detail in a new 24-page illustrated publication of the Chamber of Commerce of the United States. The publication, "How Bypasses Affect Business," discusses the advantages and disadvantages of bypasses, reports on a number of case histories as to what happened to retail trade, property values, traffic and accidents after bypasses were built. Single copies are available at 50 cents from the U. S. Chamber, Transportation Department, 1615 H Street, N. W., Washington 6, D.C.

BLOCK NEW ROADS

continued

independent of over-all planning.

Highway experts believe that if the new road building program is to proceed with reasonable dispatch and efficiency, state laws will need to provide for some sort of coordinated review and planning. Elimination of certain systems, as such, may even be necessary.

Debt limits & finance

One of the financial problems which may arise as new federal money becomes available is debt limitation. Such restrictions exist occasionally at the state level by constitution or statute and not infrequently at the county and city level where available funds may be limited by the assessed valuations. These may need alteration to adjust to over-all highway planning.

In addition some expressway laws do not authorize turnpike authorities to pledge the credit of the state, a factor which might slow down certain jurisdictions in regard to raising their share of superhighway construction money.

Legal requirements also vary in regard to the earmarking of funds. In some jurisdictions all money must be tagged for a specific use. It seems likely that the new highway program will require greater flexibility and more administrative discretion, particularly when it comes to the purchase of land for future use.

Federal aid

The Federal Aid Highway Act of 1956, which is the basis for the new long-range road-building program, is a complicated document of 15,000 words. Before the program gets actively under way many states will no doubt discover provisions in their own laws which conflict with the federal act in some degree. These may need to be reconciled.

The toll-road situation provides an example. The federal government's long-time policy is to encourage free highways, and federal aid legislation usually has been written to insure them as much as possible. The new law is no different. With a few exceptions it frowns on the toll-road principle. On the other hand, in recent years tolls have been finding increasing favor with the states.

Whether Congress should reimburse states for existing toll roads on the Interstate System is a question that has been deferred for several years pending a Commerce Department study. So has the determination of maximum weight-and-dimension of vehicles using federal aid highways. Here, too, the states may need to adjust their laws.

Public utilities

Frequently when new expressways are laid out or existing ones remodeled, an expensive by-product is the relocation of public utility equipment such as gas mains, power lines, drainage channels and the like.

A bothersome and persistent question is how much of this cost—if any—the state or local government should pay. The new federal aid act requires the United States government to follow state law in regard to reimbursing public utilities for these costs, but in many jurisdictions the law is either obscure or inadequate for a major construction program.

Roadside facilities

An important question of authority comes up here. Increasing conflicts are expected in areas where expressways go through concentrated urban or suburban districts.

Often no overriding legal doctrine determines who has authority over parking and roadside facilities—or where one authority ends and another begins. Even where such doctrine or law has emerged, changes may now be necessary in light of the anticipated highway boom.

Although these are the big legal

highways will be the basis of a modern circulatory system in urban areas for controlled access expressways with parking and terminal facilities

mained at a level close to the pre-war high. Most of the loss of business has been in off-peak hours. This means that capacity that is idle most of the day is needed to serve the peak.

In addition, the five-day week means that business is now bad for transit on Saturdays as well as Sundays and holidays.

On top of this, public carriers are plagued by profitless routes. In the new suburbs population is spread so thin that on many routes business is too light to pay the bus driver's salary. Yet public pressure makes it almost impossible to cut out these losing operations.

But it would be a mistake to discount the importance of mass transportation, or to ignore it in the quest for a solution to the urban transportation problem. In the close-in areas, transit is doing a big share of the job of moving people from home to work. An estimated 16 to 18 million families depend on public transit.

Measured by annual revenues, the transit industry is the biggest public carrier of passengers in the United States and public carriers will certainly continue to be an essential part of the transportation system in large metropolitan areas. But transit problems today are largely bus problems. They can no longer be isolated from highway and traffic problems.

That means that highways will be the basis of a modern circulatory system in the urban area. Only a total network of controlled access expressways, with parking and terminal facilities included, can provide a skeleton that will support the giant metropolis of the future. Without a complete system of highways and terminals, the skeleton is bound to collapse under the growing traffic.

Whether or not the new federal highway legislation will really come to grips with the problem of urban congestion by promoting a total approach is still a question. It is useless to provide more transport capacity if demand is permitted to grow faster than capacity can be supplied.

Yet today this is precisely what is taking place. Open spaces are being swallowed up as quickly as the bulldozers can devour them, with no serious thought to resulting transportation problems. Community plans and zoning regulations are making only the most feeble attempt to control the intensity of urban development or to achieve land uses that will minimize traffic congestion.

The federal government is also helping to finance transportation surveys of metropolitan areas, jointly supported by federal, state, and local governments. Federal funds for these metropolitan studies are supplied through federal-aid highway legislation. This effort, however, is generally unrelated to the over-all planning project despite the obvious need for a total approach.

The new highway legislation provides an excellent opportunity to bring the two together to achieve an integrated program of metropolitan planning and transportation development. The Congress has called for further study of several aspects of the new law, and this provides the opportunity to consider making federal approval of interstate highway projects contingent on their relation to over-all transportation objectives and comprehensive community plans.

This approach could go a long way toward promoting sound highway planning and desirable community growth. When right-of-way is bought for highways, additional land could be acquired for playgrounds, parks, shopping centers, and other community requirements. The new highway program could thus add to the community's esthetics rather than aggravate its scars.

The principal goal, of course, will be to achieve more satisfactory conditions of urban living. An expressway program that merely tries to move us more expeditiously through areas of congestion will miss the mark. No city can afford to miss this opportunity to put the highways to work for better communities as well as better transportation.

—WILFRED OWEN

Fishing hole shortage threatens outlook for biggest U.S. sport

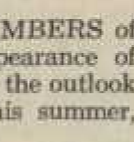
MUSHROOMING NUMBERS of anglers plus the disappearance of some fishing holes cloud the outlook for sport fishing for this summer, fall, and years to come.

A shortage of customers is not what worries the fishing equipment manufacturers and other branches of the industry. There are about 30 million American fishermen.

But crowding of good places to drop a line has the industry scratching its head to find ways to keep pace with booming U. S. population.

Billions of dollars are at stake. About mid-September a survey now being made for the Department of Interior's Fish and Wildlife Service will show how much Americans spend on fishing.

In the meantime, estimates range up to $6 billion annually.



The bill for fishing gear alone will run to more than $200 million in 1956, predicts John M. Holmes, secretary-treasurer of the Associated Fishing Tackle Manufacturers, of Washington, D. C. The 136 manufacturers in Mr. Holmes' association reported retail sales of about $170 million last year—four times the industry's 1940 sales.

The tackle makers and the 25,000 retailers who handle their products are gleefully amazed by this.

"A lot of factors have been mentioned in explanation of fishing's growing popularity," says Mr. Holmes. "The shorter work week, more leisure time, increased mobility of our people because of the automobile—all these things certainly are causes of the boom in angling."

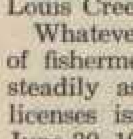
Other, subtler influences include the postwar surge of interest in boating—fishing's bread-and-butter companion—vigorous sales promotion and creative merchandising by the tackle industry, and the fact that a lot of young fellows fell irrevocably under the spell of fishing while passing time on islands of the South Pacific during and immediately after World War II.

Some fishing equipment dealers credit President Eisenhower's fondness for the sport for the widening interest in fishing. A proponent of this view is Stan Wright, whose firm sold Ike supplies last summer for trout fishing in fast-running St. Louis Creek, above Denver.

Whatever the reasons, the number of fishermen in the U. S. is on a steadily ascending curve. Fishing licenses issued in the year ended June 30, 1942, totaled 8,423,218. In the fiscal year ended last June 30 the figure was 18,854,809. And that doesn't include the millions who fish in those salt water areas where no license is required.

Getting people to fish doesn't worry the tackle makers as much as giving those who do fish an adequate number of good places to drop their hooks and sinkers.

"Rapid population growth is making this problem increasingly acute," says Richard H. Stroud, executive vice president of the Sport Fishing Institute, a fish conservation agency financed substantially by the tackle industry.



As Mr. Stroud outlines it, the problem is this: Population is booming. The number of fishermen and potential fishermen is booming. But the available supply of fishing waters is not booming and, in fact, some fishing waters are being lost because of drainage, diversion of water, siltation, pollution and posting.

The Institute worries, too, whether tomorrow's anglers will have free access to all those waters suitable for fishing. It has a number of proposed

solutions to this problem, including a recommendation that cities permit their municipal water reservoirs to be stocked and fished.

"San Diego's water supply lakes have been fished for more than 20 years without harm," says Mr. Stroud.

The fishing tackle industry itself includes some 200 companies whose sales range from $50,000 a year, or less, to $10 million. Some of the smaller companies are back yard industries, specializing, in many instances, in the manufacture of a particular kind of fly or lure, with most or all of the work done by hand. The bigger concerns, like Cortland Line, James Heddon's Sons, Enterprise Manufacturing, the Shakespeare Company, and Horrocks-Ibbotson, are heavily capitalized. They manufacture a large variety of fishing accessories, using precision machinery and the services of such highly skilled craftsmen as reel machinists, rod-winders, line braiders, fly-tiers and hook snellers.

The industry is conscious of strong competition from Norway (hooks), France, Switzerland and Italy (spinning reels) and shows an increasing willingness to research and develop new products.

"Take the fishing rod, for example," says Mr. Holmes. "Before World War II all our fishing rods were steel or split bamboo. Now 90 per cent of domestically manufactured rods are made of glass fiber."

Other postwar developments include nylon gears for reels, plastic tackle boxes, nylon leaders.

The industry is especially proud of its work to further fish conservation and more intelligent development of good fishing waters. Its biggest stride in this direction was the Dingell-Johnson Act, passed by Congress three years ago, which earmarks all funds from the ten per cent federal excise on the manufacture of rods, reels, creels, artificial baits, flies and lures for a federal aid program to state fishery research and management.

"We want to be ready when the fisherman of tomorrow comes along," says Mr. Holmes. "Good fishing waters are an investment in our future."

In a move to cultivate youthful customers, the industry is currently conducting a campaign to get more schools to adopt fly casting as part of their physical education programs. Initial conferences have raised the tackle makers' hopes as to the ultimate success of their campaign. END

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Salesman calls ahead for appointment

. . . is welcomed without waiting

Telephone call helps close $9000 sale

Here's how it happened, as told by the sales manager of the Geo. S. Thomson Co., industrial supplier of Phoenix, Arizona:

"First thing one morning, one of our salesmen called a customer in another city to ask for an appointment. It was a good thing he called, for the customer was about to leave town for several weeks. The salesman left that morning, saw his customer that same afternoon, and closed a $9000 sale.

"In this case the call cost $1.55. And in every case we find that calling ahead for appointments pays for itself many times over."

• • • •

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Cleveland to Pittsburgh	60¢
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Phoenix to San Francisco	$1.40
Los Angeles to Washington, D.C.	$2.50

These are the daytime Station-to-Station rates for the first three minutes. They do not include the 10% federal excise tax.

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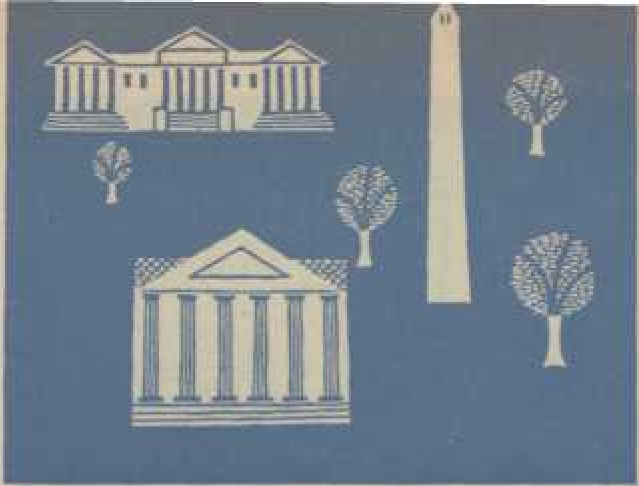

THE SERVANT TURNS MASTER

IN THE COMING fiscal year United States citizens will be taxed more than $66 billion to support their federal government. The recently adjourned Congress authorized commitments that will mean billions more later on. Undoubtedly American families will adjust their personal desires, consumption habits and hopes for a tax cut to the realities of this tax program. Years of high taxes have left them resigned if not reconciled to the government's ravenous appetite for money.

The national economy, too, has had years to learn the survival techniques that high taxes force upon it.

Thus, if only dollars were involved, alarm over the government's persistent tendency to grow might be discounted as mere selfishness.

Unfortunately, big government saps national morals as surely as it saps the national income.

This is because, as government grows, its rule becomes more and more absolute. Whether the powers spring from the will of the people or from the divine right of kings makes little difference. Neither does the reason for granting the power, nor the integrity of those who administer it.

Our own government today can—intentionally or otherwise—dominate and control its subjects as few absolute monarchs of the past were able to do.

Although it lacks the power of life or death over individuals, it holds this power over their economic well-being. By making or withholding loans or by awarding or withdrawing contracts it can decide the fate of a business.

It can penalize any business for no wickedness except growth and it can now stunt growth or harass it if it chooses.

It can put an airplane, an atomic plant or a military post here or there, causing a whole area to expand or stagnate, thereby changing the economic geography of the country.

Through subsidies or pensions it can reward some groups of citizens at the expense of others.

By fixing arbitrary wage rates on government construction projects it can disrupt established patterns in any community where it chooses to operate.

It can encourage production by purchasing for government stockpiles, or refuse to purchase and leave producers with useless machinery.

It can permit or not permit the use of government lands and resources and in this way increase production or lessen it.

It can, through its monetary controls, improve the financial standing of debtors as against creditors at will.

Each of these—and other—powers makes possible some further step toward governmental mastery of its subjects. As more and more people become dependent on government for pensions, or contracts or bounty, fewer voices are likely to be raised against increasing appropriations or new invasions of personal liberty. Willingness to object fades with the knowledge that a key congressman, a government official or regulatory bureau may withhold an appropriation, refuse a loan or demand further relevant facts. The principle of laissez faire—long outmoded in the conduct of business—becomes the rule in the conduct of government.

This is one reason why the Hoover Commission's recommendations progress so slowly toward adoption. Another is that these recommendations tend to disappear into the maze of big government. They become—maybe by design, maybe not—entangled in red tape or congressional oratory. Frequently they emerge almost unrecognizable.

This is not to argue that efforts toward adoption are futile. Gains already made refute that. It does mean that, unless these efforts are pressed energetically now, futility may not be far ahead.

The new appropriations are a measure of federal disdain for efforts at control. Those who still dare to speak for a government controlled by its people need to speak now. The Hoover report gives their words direction and authority.